VOLUNTEER TRAINING GUIDE
Dear Volunteer,

Thank you for your interest in joining our Tax Help Colorado community! We are excited and honored that you are exploring volunteer opportunities with our program and hope you find the experience as rewarding as we do!

Tax Help Colorado, a program of The Piton Foundation, provides free tax preparation to low-to moderate-income families throughout Colorado. But this service is more than just a return. It’s access to valuable tax credits that help lift more families out of poverty each year than any other government program. It’s the assurance that a return is done correctly the first time. It’s a welcoming environment during a stressful time of year. All of this is only possible because of volunteers like you.

As one of many IRS Volunteer Income Tax Assistance (VITA) programs, Tax Help Colorado operates over 30 locations throughout the state. We pride ourselves on the high quality of our service and the knowledge that we are making the lives of low-income Coloradans just a little easier. Since opening our first free tax site in 2007, over 3,000 volunteers have helped us prepare more than 82,000 tax returns, returning more than $152 million in refunds to taxpayers, and saving families an estimated $16 million in tax preparation fees!

As we continue to grow our service and reach even more Coloradans this year, we hope you will join our volunteer community! We are here to support you every step of the way on your volunteer journey. If ever you have a question or concern, please feel free to reach out to our team! After all, we can only do this important work, when we work together.

On behalf of The Piton Foundation, welcome to Tax Help Colorado!

Sincerely,

Sasha Prell
Program & Volunteer Specialist
Tax Help Colorado
The following **training tracks** describe the required and optional trainings for Tax Help Colorado volunteers. You may use this checklist to keep track of your completed trainings and assignments as you work towards obtaining the IRS certification.

### A

**New Volunteer Tax Certification Training**  
Related Roles: On-Site Tax Preparer, Off-Site Tax Preparer, Quality Reviewer

Volunteers new to Tax Help Colorado and have little to no prior tax experience must attend the following trainings and pass the Basic Certification exam. New tax-certified volunteers interested in obtaining Advanced Certification may attend the Advanced Training after completing the first three trainings for Basic Certification.

- [ ] Attend Orientation  
- [ ] Read Volunteer Training Guide Chapters 1-11 and Create TaxSlayer Account  
- [ ] Attend New Tax Certification Training Day 1  
- [ ] Read Volunteer Training Guide Chapters 12-18 and Complete Practice Return  
- [ ] Attend New Tax Certification Training Day 2  
- [ ] Take Certification Exams  
  - [ ] 2019 Volunteer Standards of Conduct Exam  
  - [ ] 2019 Intake/Interview and Quality Review Exam  
  - [ ] 2019 Basic Exam  
  - [ ] (Optional) 2019 Health Savings Accounts (HSA) Exam  
- [ ] Attend New Tax Certification Training Day 3  
- [ ] (Optional) Attend Advanced Training  
  - [ ] (Optional) Take 2019 Advanced Exam  
- [ ] Sign Up to Volunteer

### B

**New Volunteer Non-Tax Certification Training**  
Related Roles: Greeter, Translator

Volunteers interested in non-tax roles and new to Tax Help Colorado must attend all of the following trainings.

- [ ] Attend Orientation  
- [ ] Attend New Non-Tax Certification Training  
  - [ ] (At the training) Take 2019 Volunteer Standards of Conduct Exam  
- [ ] Sign Up to Volunteer
New Volunteer (with prior tax experience) Training
Related Roles: On-Site Tax Preparer, Off-Site Tax Preparer, Quality Reviewer

Volunteers new to Tax Help Colorado and have a strong understanding of individual income taxes are only required to attend an Orientation and Refresher Training for Returning Volunteers. These volunteers may attend the trainings for new volunteers if they would like (refer to Training Track A).

- Attend Orientation (Receive Volunteer Training Guide)
- (Optional) Attend Advanced Training
- Attend Volunteer Refresher Training
- Take Certification Exams
  - 2019 Volunteer Standards of Conduct Exam
  - 2019 Intake/Interview and Quality Review Exam
  - 2019 Basic Exam or (optional) 2019 Advanced Exam
  - (Optional) 2019 Health Savings Accounts (HSA) Exam
- Sign Up to Volunteer

Returning Tax Help Colorado Volunteer (Tax Certified)
Related Roles: On-Site Tax Preparer, Off-Site Tax Preparer, Quality Reviewer

Volunteers who have volunteered with Tax Help Colorado for at least 1 prior tax season. These volunteers are required to attend the Refresher training for volunteers. These volunteers may attend the trainings for new volunteers if they would like. Returning volunteers with Basic Certification may attend an Advanced Training if they are interested in obtaining Advanced Certification.

- (Optional) Attend Advanced Training
- Attend Volunteer Refresher Training
- Take Certification Exams
  - 2019 Volunteer Standards of Conduct Exam
  - 2019 Intake/Interview and Quality Review Exam
  - 2019 Basic Exam or (optional) 2019 Advanced Exam
  - (Optional) 2019 Health Savings Accounts (HSA) Exam
- Sign Up to Volunteer

Returning Tax Help Colorado Volunteer (Non-Tax Certified)
Related Roles: Greeter, Translator

Returning Tax Help Colorado Volunteers with at least one year of nontax-certified experience may attend the training for new nontax certified volunteers if they would like, but are not required to do so.

- (Optional) Attend New Non-Tax Certification Training
- Take 2019 Volunteer Standards of Conduct Exam
- Sign Up to Volunteer
Our Commitment to You
As a volunteer for Tax Help Colorado, you deserve to have an enjoyable volunteer experience. We at Tax Help Colorado commit to helping you feel comfortable, safe and supported during your time with us. We will do everything in our power to ensure the following:

• We provide all training materials necessary for you to obtain the volunteer certification appropriate for your desired volunteer role.
• We are available to answer your questions, both about tax preparation and the general volunteer experience.
• We will train you to ensure the three-step process (discussed in Section VIII Tax Site Operations) is followed for every Tax Help Colorado tax return.

Volunteer Expectations

Time Commitment
Due to the resources and effort used to provide free trainings for all interested volunteers, we ask that you try your best to complete the minimum number of volunteer hours required of your role during the tax season.

Professionalism
While we provide a free service, we expect volunteers to uphold a level of professionalism that instills confidence and trust in the families we serve. Volunteers who conduct themselves in a manner that is deemed damaging to the Tax Help Colorado program may be asked leave the program.

Ethics
All volunteers are expected to uphold the Volunteer Standards of Conduct for VITA sites. In general, volunteers should not accept payment from taxpayers, should not knowingly prepare false returns, and should keep taxpayer information secure at all times. For more details on volunteer ethics, refer to Section IX Certification in this guide.
Volunteer Benefits

There are many benefits to volunteering with Tax Help Colorado. In addition to learning a lifelong skill and the rewarding feeling of helping others, here are some other benefits:

Hours Completed During One Tax Season

- **25 Hours >**
  - Invitation to Tax Help Colorado’s End of Tax Season Celebration

- **40 Hours >**
  - Receive a personal letter of commendation from Colorado’s Governor

- **100 Hours >**
  - Receive a Presidential Service Award

Years of Service with Tax Help Colorado

- **Annually >**
  - Invitation to Volunteer Kickoff Event in the Fall

- **2nd Year >**
  - Tax Help Colorado Travel Mug

- **3rd Year >**
  - Custom name tag for use at the tax site

- **5th Year >**
  - Tax Help Colorado fleece vest

- **10th Year >**
  - Custom-engraved plaque recognizing volunteer service

Other Perks

- Volunteers may prepare their own return using the TaxSlayer software (return must still be quality reviewed by another qualified volunteer).
- Volunteers may prepare up to three friend/family returns with income over the $56,000 limit. (Only income can be out of scope, all other information on return must be within volunteer certification level. Return must be quality reviewed.)
- Food will be offered while at the tax sites.
- Volunteers will be invited to events outside of tax season.
The following resources will help you along your journey to become an IRS-Certified volunteer. These resources are all available in electronic form on the Tax Help Colorado volunteer page at www.garycommunity.org/volunteer.

- Tax Help Colorado Volunteer Training Guide
- Publication 4012
- TaxSlayer Practice Lab
- Creating a Profile on TaxSlayer Practice Lab
- Track It Forward
- How to Use Track It Forward for Volunteers
- IRS Certification Exam (Form 6744)
- Link and Learn Certification (IRS Certification Platform)
- Online Modules

Tax Help Colorado Volunteer Training Guide

This guide will be your primary resource as you learn about preparing income tax returns. Chapters 1-18 in Section V cover the information needed for you to pass the IRS Certification Exams. As you read through this guide, you will come across:

- Information on how to prepare an income tax return
- Samples of various tax forms you may encounter
- Tips for using TaxSlayer, the tax preparation software used at Tax Help Colorado sites
- Tips for volunteering at Tax Help Colorado free tax sites
- Practice questions and tax returns

This guide includes information for volunteers to pass both the Basic and the Advanced Certification exams. Volunteers certifying at the basic level may skip over the sections of the tax chapters titled “For Advanced Certification.”

Publication 4012

This resource will be your go-to guide when taking the IRS Certification Exams and while you are volunteering at tax sites. The 4012 includes helpful tables, flowcharts and instructions for preparing tax returns. This guide has the answers for nearly every situation you'll encounter at a Tax Help Colorado free tax site. New volunteers will receive the newest edition of the 4012 at their Volunteer Orientation. Returning volunteers can request a printed Publication 4012 from the Tax Help Colorado staff (contact information at the top of this section).
**TaxSlayer Practice Lab**

TaxSlayer is the software used by Tax Help Colorado free tax sites. Tax-certified volunteers will learn to use the TaxSlayer Practice Lab to prepare tax returns for the IRS Certification Exams. The TaxSlayer Practice Lab is a version of the software volunteers can use while going through training. Once you have passed the certification exams, you will be given access to a Live version of TaxSlayer which you will use to prepare tax returns for clients during tax season. Refer to page 7 of this guide to find instructions for how to create your own TaxSlayer Practice Lab account.

**Track It Forward**

Track It Forward is the software Tax Help Colorado uses for volunteer scheduling and hours tracking. You will be required to create an account on Track It Forward and log your hours throughout tax season. You can also sign up for volunteer trainings on Track It Forward. For instructions on how to create an account, refer to page 8 of this guide.

**IRS Certification Exam (Form 6744)**

Form 6744 contains the IRS Certification Exams volunteers must take in order to volunteer at a Tax Help Colorado free tax site. Different volunteers have different requirements for which exam they must take (refer to Section II Volunteer Training Tracks for these requirements). A printed version of the 6744 will be provided to new volunteers at their trainings. Returning volunteers can request a printed version from the Tax Help Colorado staff (contact information at the beginning of this section). For more information about these exams refer to Section IX Next Steps.

**Online Modules**

Prosperity Now’s Taxpayer Opportunity Network created the online Volunteer Income Tax Assistance (VITA) training modules, which volunteers can view to supplement the information in this guide. The modules are designed to help volunteers train and pass the IRS Volunteer Standards of Conduct; Intake, Interview & Quality Review; and Basic Volunteer Certification tests. The updated modules will be available online only—please refer to the Tax Help Colorado Volunteer webpage to find the link to these modules.

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**Creating a Profile on TaxSlayer Practice Lab**

2. Enter the password: TRAINPROWEB  
   *Note: You will need to use this link and password whenever accessing the practice lab.*
3. Click Create account and enter the following information.  
   • Email (must confirm email)  
   • Username (we recommend having the word “test” in your name, as you cannot use the same username from the practice lab at the tax sites. Example: TestSasha2019)  
   • Create password (confirm password)  
   • Program Type (Select VITA)  
   • Site Identification Number  
     • Use: S81012057
4. “Go to Practice Area” to access the practice lab software.
5. To log back into the practice lab, you will need to follow steps, 1, 2 and then enter your username and password.

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**How to Use Track It Forward for Volunteers**

Contents:

• First-Time Volunteers  
• Returning Volunteers  
• Signing Up for Events
First-Time Volunteers

1. Log on to site: https://www.trackitforward.com/site/piton-foundation
2. Volunteers must register on their first visit by selecting “Sign up”
3. Volunteers must fill out all of the following information:
   • Email—Use the same email you will use on TaxSlayer
   • Password & Confirm Password
   • First & Last Name
   • Phone Number—Not required, but if provided will be used for two-step authentication in TaxSlayer Software
   • Training Location
     ○ First Year Community Volunteers: Select “The Piton Foundation”
   • Mailing Street Address, City, State & Zip—Used to mail end of season awards
   • Certification—Indicate yes or no if you passed any of the following tests for the upcoming tax season (If you are creating a login before taking the certification exam, select no. You will be able to edit this answer after taking the exams)
     ○ Volunteer Standards of Conduct, Basic Certification, Advanced Certification, HSA Certification, International Certification, Military Certification, Foreign Student Certification
   • What year was your first tax season with Tax Help Colorado? For example, if your first time at a tax site was spring 2015, enter “2015”
   • What role do you have at the tax site?
     ○ Select: Community Volunteer
   • Shirt Size—For special events and end of season awards
   • Do you speak any languages other than English? Helpful for translation needs
   • Volunteer Agreement—After taking the IRS Exams, upload the PDF of your volunteer agreement (Form 13615) to your profile.
   • Photo/Video Release—Tax Help Colorado sometimes takes photos and videos at its tax sites. Selecting “Yes, I agree to this” allows Tax Help Colorado to use your likeness if you are in the video/photo. If you are under 18 years old, your parent or guardian will need to sign a separate form for permission.
4. After completing this information, select “Sign Up” at the bottom of the page.
5. Volunteers will be taken to the LOG HOURS page. At the top of the webpage there is a menu bar:
   a. Log Hours: This is where volunteers will go to log hours after working at a site. They will enter the # hours worked, the date of the shift, the activity (ex. tax prep), the Location of the tax site, and they can enter notes if they want to provide more information (Ex. I was signed up for a 5 hour shift but had to leave early so only worked 4 hours).
   b. Charts: Here volunteers can see how their hours compare to other volunteers.
   c. Event Sign-ups: Here volunteers will see a calendar of events.
   d. Account: Volunteers can access the LOG HOURS & EVENT SIGNUPS from this menu, as well as edit their profile information, change their password, and get a report of their total hours.

Returning Volunteers

Returning volunteers will need to reactivate their profile:

1. Log in using your user information from last tax season. This will send a notification to the Site Admin (Sasha Prell) to reactivate your profile. If you have difficulty reactivating your profile, contact Sasha Prell at sprell@garycommunity.org.
2. Once your profile is reactivated (this may take 1-2 days), go to your account page and update your profile information.
   • Make sure to update any changes such as change of address.
   • Also be sure to update your certifications for the upcoming tax season (for example: If you were certified at the basic level last year, but this year you have Advanced certification, make sure to change the answer for Advanced Certification to “yes”)
   • Another change: The former question “How many years have you volunteered with Tax Help Colorado” now asks which YEAR you began volunteering with Tax Help Colorado. Make sure to change this as well.
• For more information on profile question changes, read the section for First Time Volunteers in this document.

3. Use Track It Forward throughout tax season as you did the year before.

Signing Up for Events

1. On the Event Sign-ups calendar, volunteers will see 3 types of events:
   • Events in BLUE are available for sign up
   • Events in GREEN mean the volunteer has already signed up for the shift
   • Events in GREY are at capacity/unavailable

2. After clicking on an available event, the volunteer will be taken to the event page. Here they can see the different shifts and positions available as well as more details.

3. Volunteers click on “Sign Up” for the shift/position they want to volunteer for. They have the option to send the Site Coordinator/Event Owner a message if they choose.

4. After signing up, the “Sign Up” button next to the shift will be green and say “Confirmed.”

5. Volunteers should complete the above steps for each shift they want to volunteer for.

To Cancel Your Event Registration:
1. If a volunteer wants to take their name off an event, they must click on the event from the “Event Sign-ups” calendar.
2. Click on the “+” sign next to the “Confirmed” button. Their name will appear.
3. Click on the RED X next to their name to unregister.
4. Volunteers must do this for each event they want to unregister for.
The following chapters in Section V cover all the components needed to prepare a complete income tax return. Each chapter consists of:

- **Learning Objectives**: A high level list of topics you will learn in that chapter.
- **Resources**: Where you can find this information for reference in your Publication 4012.
- **Content**: The actual content you will be learning.
- **Tip Boxes**: Include tips for preparing returns in TaxSlayer and at Tax Help Colorado sites.
- **Summary**: Summarizes key content from the chapter.
- **Out of Scope for VITA**: Lists some items that cannot be prepared at a VITA tax site.
- **Practice Exercise/Return**: Quizzes and practice tax returns to test your knowledge
- **Advanced Certification Required**: Some chapters contain information that is only needed for volunteers training for the Advanced Certification. Volunteers who are certifying only at Basic should read the introductions to these chapters, but are not required to read beyond where it says “Advanced Certification Required.”

### Tax Training Chapters

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2. Filing Basics p. 14
3. Filing Status p. 16
4. Exemptions & Dependents p. 21
5. Income: Wages, Interest, Dividends, Alimony & Taxable Refunds p. 25
7. Capital Gains & Losses p. 39
8. Retirement Plans, Annuities & Pensions p. 44
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CHAPTER 1
Introduction to Income Tax Returns

Learning Objectives
• Structure of a Tax Return
• Important Filing Terms

Structure of a Tax Return
A tax return is the form(s) a taxpayer uses to report income and file income taxes. Tax returns allow taxpayers to calculate their tax liability (tax owed) or request refunds based on the previous year’s information. Within the United States, the Department of the Treasury – Internal Revenue Service (IRS) is the entity that oversees the collection of income taxes. The IRS creates and publishes the forms used to ensure that tax law is imposed correctly. We will be referring to and learning about many IRS forms throughout this course. Specifically, we will focus our learning on the U.S. Individual Income Tax Return, Form 1040 and its supporting forms and schedules.

Form 1040 can be thought of as “the body” of the tax return. When preparing a tax return, you will enter information on various forms and schedules, based on the information the taxpayer provides. The tax software used by Tax Help Colorado, TaxSlayer, will take all of this information and report it in the appropriate section of Form 1040. Your goal during this course is to learn how to use your resources to determine the correct entry of taxpayer information to create an accurate Form 1040.

Another way to think of Form 1040 is as a big addition and subtraction problem (with a little multiplication thrown in). At right is an outline of how a taxpayer’s tax refund or tax liability is calculated and the related Chapters in this training guide.

Explanation of equation
1. All taxable income is recorded and added to produce Gross Income. There are few items that are not taxable.
2. Any adjustments (or subtractions) from that income that the taxpayer is qualified to take are recorded and summed. The difference between Gross Income and Total Adjustments results in the taxpayer’s Adjusted Gross Income.
3. A standard deduction or the total of a taxpayer’s itemized deductions are then subtracted from the taxpayer’s Adjusted Gross Income.
4. If a taxpayer has net earnings from self-employment income, the Qualified Business Income Deduction (QBID) is subtracted from the amount in step 3. This results in the taxpayer’s Taxable Income.
5. Tax is calculated by applying a percentage on the Taxable Income. The percentage is a function of filing status and income level (tax bracket).
6. Any qualifying non-refundable tax credits are subtracted from the calculated tax. Non-refundable tax credits cannot reduce the tax liability to a negative.
7. Other taxes the taxpayer may owe are added to the amount in step 6. This amount is the taxpayer’s Total Tax.
8. All amounts the taxpayer paid in taxes during the year (income tax withholding from pay, any estimated income tax payments, etc.) are added to any qualifying refundable tax credits. This amount represents the Total Payments a taxpayer made or is credited during the year.
9. Total Payments are subtracted from the taxpayer’s Total Tax.

Form 1040 Equation
Gross Income [Chapters 5-9]
- Adjustments to Gross Income [Chapter 10]
  = Adjusted Gross Income (AGI)
- Greater of Itemized Deductions or the Standard Deduction [Chapter 11]
  - Qualified Business Income Deduction [Chapter 11]
  = Taxable Income
x Tax rate (using appropriate tax tables or rate schedules)
  = Initial Tax Liability
- Nonrefundable Tax Credits [Chapter 12]
  = Gross Tax Liability
+ Other taxes [Chapter 13]
  = Total Tax
- Refundable Tax Credits and Payments [14]
  = Tax Due or Refund

Resources
Publication 4012 (Tab B)
10. If the amount of Total Payments is greater than the Total Tax, the taxpayer is eligible to receive a tax refund. If the amount of Total Payments is less than the Total Tax, the taxpayer owes the difference.

11. The taxpayer’s signature, as well as any paid preparer’s signature is recorded at the bottom of page 2. Since Tax Help Colorado is a volunteer site, volunteers do not sign the return. If the taxpayer chooses to mail a paper copy, the taxpayer will sign in this section. If the taxpayer decides to electronically file the return, they will need to sign a separate form discussed in Section VII: Tax Site Operations.

**Form 1040, Pages 1 & 2**

**Page 1:** Records the taxpayer’s filing status, personal information, dependents. Also includes total income, adjusted gross income, deductions and taxable income.

**Page 2:** Displays taxes, credits, payments, the amount to be refunded or owed, and signature (if paper filing).

In addition to Form 1040, there are three Schedules. Schedules are forms that the IRS requires you to prepare in addition to your tax return when you have certain types of income or deductions. Tax Slayer will automatically create the appropriate forms when you enter relevant information into the software. We will cover these forms as they come up throughout this guide.
Important Filing Terms

You will see the following terms referenced throughout this training guide:

Non-US Citizen Filers—Some noncitizen individuals in the United States are still required to file taxes. All noncitizens or non-nationals of the U.S. are considered aliens. There are three types of aliens for tax purposes:

- **Resident:** U.S. residents who meet either the green card test or the substantial presence test;
- **Nonresident:** Persons who are not U.S. citizens or U.S. nationals and have not passed the green card test or substantial presence test;
- **Dual Status:** Persons who are both nonresidents and resident aliens for the tax year.

Non-US citizen filers will be discussed more in-depth in Chapter 17.

Individual Taxpayer Identification Number (ITIN)—An Individual Taxpayer Identification Number (ITIN) is a tax processing number issued by the IRS to process and account for tax returns and payments for those not eligible for Social Security Numbers (SSN). They are issued regardless of immigration status because both resident and nonresident aliens may have a U.S. filing or reporting requirement. The ITIN contains nine digits and is formatted like a SSN and begins with the number 9 (9XX-XX-XXXX). To determine if an ITIN holder is a resident or nonresident alien see Publication 4012, tab L.

Totally and Permanently Disabled—To be considered totally and permanently disabled the person cannot engage in any substantial gainful activity because of their physical or mental condition. A qualified physician must certify that the condition has lasted or can be expected to last continuously for 12 months or more, or that the condition can be expected to result in death.

Legally Separated—To be considered legally separated, a couple must go through a legal process by which a separation is formalized while remaining married. A legal separation is granted in the form of a court order. If a taxpayer has this decree of separation, they may file “Single” or “Head of Household” status, based on other factors discussed in Chapter 3.

Presidential Election Campaign Fund—Taxpayers have the option to elect to contribute $3 to the Presidential Election Campaign Fund. The fund helps to pay for presidential election campaigns. The fund’s intention is to reduce the candidates’ dependence on large contributions from individuals and groups and place the candidates on an equal financial footing in the general election. By electing to contribute to the fund, the $3 will not reduce the taxpayer’s tax refund or increase the amount of tax liability. The election will be recorded on page 1 of Form 1040.
CHAPTER 2
Filing Basics

Learning Objectives

• Determine Who Must File a Tax Return
• Determine Who Should File a Tax Return

Who Must File?

Individuals do not always have to file a tax return. The requirement for filing a return is based on three factors: age, gross income, and filing status. IRS Publication 4012, tab A outlines in detail when a tax return must be filed.

• Refer to Chart A on page A-1 for who must file, for most people, based on gross income.
• Refer to Chart B on page A-2 for when children and other dependents must file.
• Refer to Chart C on page A-3 for other situations when a person must file. Some of the more common situations include:
  1. Advanced payments of the premium tax credits (Affordable Care Act)
  2. Additional taxes or special taxes owed (ex. IRA withdrawal subject to additional tax)
  3. Net earnings from self-employment of $400 or greater

Who Should File?

There are also situations when an individual does not have a filing requirement, but would benefit from filing their taxes via receiving a refund.

• Refer to Chart D on page A-3 for other times when filing is not a requirement but would be beneficial to the individual. Some of the more common situations include:
  1. Income tax was withheld from pay by an employer (Form W2, box 2)
  2. Estimated tax payments were made during the year
  3. Individual qualifies for certain refundable tax credits

Summary

• Certain circumstances require a taxpayer to file a return even when their gross income is below the filing requirement amount (ex: self-employment income over $400)
• Not all taxpayers are required to file a tax return, but some who aren’t required to may still benefit from filing
• Use IRS Publication 4012, Tab A to determine who needs to file and who should file.

PRACTICE EXERCISE

Use the charts in Publication 4012, Tab A to answer the following questions. Check your answers using the Answer Key in Section VI of this guide.

1. Raymond is 26 years old and single. No one can claim him as a dependent. His gross income was $16,000 during the tax year. Based only on this information, is Raymond required to file a tax return?
   a. Yes
   b. No
2. Jane and Harry are married and usually file a joint return. During the tax year, Jane turned 66 and Harry turned 64. Their gross income was $20,800. Based only on this information, are they required to file a tax return?
   a. Yes
   b. No

3. Clark is single, 21 years old and a full-time college student. His parents can claim him as a dependent on their tax return. Clark had a part-time job as a barista and earned $650. Based only on this information, is Clark required to file a tax return?
   a. Yes
   b. No

4. Jonathan is 31 years old. He earned $8,000 working part time at a department store. In addition, he drove for a rideshare app and his net income from this self-employment was $600. Based on this information, is Jonathan required to file a tax return?
   a. Yes
   b. No
CHAPTER 3

Filing Status

Learning Objectives
• What is a Filing Status?
• The Five Filing Statuses
• Determine a Taxpayer’s Filing Status
• Enter Personal Information into TaxSlayer

What is a Filing Status?

Filing status is a set of five classifications individuals use when filing their tax return. Filing status has major implications for a tax return such as how an individual is taxed and eligibility for certain credits. As such, it is extremely important to determine the correct filing status when preparing a return.

Identifying the correct filing status for a taxpayer is the first step in filing a tax return. There are many factors that must be considered in making this determination, such as the taxpayer’s marital status, whether or not the taxpayer has children or other dependents that he/she supports, whether or not the taxpayer has lived with his/her spouse during the last six months of the year, and other factors described in detail on the following pages.

Information provided by the taxpayer in Part II of the Intake Sheet will help provide some context but it is important to ask follow-up questions provided on page B-8 in Publication 4012 to determine the correct and most beneficial filing status.

Tip: At Tax Help Colorado sites, all taxpayers must complete an Intake Sheet, IRS Form 13614-C. The intake sheet is a guide for the tax preparer to use while preparing the return. It is important not to rely solely on the intake sheet but to use it as a prompt to ask follow-up questions. We will reference back to the intake sheet throughout this book.

Tip: Although the taxpayer may check the box “Never Married” on the Intake Sheet, this does not always mean the correct filing status for the taxpayer is “Single.” In certain situations, the unmarried/single taxpayer may qualify to file as “Head of Household.” Similarly, taxpayers may check “Married” on the Intake Sheet but may not need to file as “Married Filing Jointly” or “Married Filing Separately.” In special situations, the married taxpayer may qualify to file as “Head of Household.” See Publication 4012, page B-10 for more information.
The Five Filing Statuses

There are five filing status classifications used in filing personal income taxes:

- Single
- Married Filing Jointly
- Married Filing Separately
- Head of Household
- Qualifying Widow(er) with Dependent Child

**Single**—An individual is considered to be single if on December 31st of the tax year they are unmarried or legally separated from their spouse under a divorce or separation agreement. However, it is important to determine if the taxpayer may qualify for a more favorable filing status, such as “Head of Household.”

*Divorced During the Year*—If on or before December 31st, a couple receives a final decree of divorce, they cannot file “Married Filing Jointly” or “Married Filing Separately.” The correct filing status is either “Single” or “Head of Household.”

**Married Filing Jointly**—A couple can choose the “Married Filing Jointly” status if they are legally or common-law married on or before December 31st of the tax year and both spouses agree to file a joint return.

*One Spouse Dies During the Tax Year*—If a spouse dies during the tax year, the couple is considered to be married for the entire year and the surviving spouse can still file “Married Filing Jointly” for that tax year.

**Married Filing Separately**—If on December 31st of the tax year, a couple is legally married but chooses to file separate returns, they would choose the “Married Filing Separately” status. However, both spouses must report the other spouse’s name and social security number on their return. In addition, if one spouse itemizes or uses the standard deduction, the other spouse must select the same deduction option.

If the taxpayer(s) chooses the “Married Filing Separately” status, they will generally have a higher tax rate than if they were to file “Married Filing Jointly.” More importantly, in most cases they will not be able to claim beneficial credits that help families get additional money back at tax time. This filing status has many additional penalties built into the tax code, affecting the return in a negative manner.

An individual may be eligible to use the “Head of Household” status instead of “Married Filing Separately” if they lived apart from their spouse for at least the last six months of the year (including a spouse living in another country) and meet the requirements to be “considered unmarried.” It can provide a taxpayer significant tax advantages to use the “Head of Household” filing status versus the “Married Filing Separately” status, so it is important to carefully consider whether the taxpayer meets the requirements. See the rules to be considered unmarried under “Head of Household.”

**Head of Household**—Individuals can choose the “Head of Household” filing status if they meet all of the requirements below.

1. They are unmarried or “considered unmarried” on December 31st.
   a. You are “considered unmarried” if the three criteria below are met:
      i. You are filing a separate return. A separate return includes a return claiming married filing separately, single, or head of household.
      ii. You paid more than half the cost of keeping up a home during the tax year (see worksheet on page B-11 in Publication 4012).
         • Costs of keeping up a home include expenses for rent, mortgage interest, real estate taxes, property insurance, repairs, utilities, and food eaten in the home.
         • Costs not included would be medical expenses, clothing, education, life insurance, vacation expenses, and transportation expenses.
      iii. A spouse did not live in your home at any time for the last six (6) months of the tax year.

2. They have a “qualified person” who lives with them for more than half of the year. Temporary absence such as school is an exception. The other exception involves a dependent parent(s) being the “qualified person.” A parent(s) does not have to live with the taxpayer. A qualified person is:
a. A qualifying child* who is a son, daughter, or grandchild, who lived with the taxpayer for more than half of the year, and he or she is single. If he or she is married and an exemption* can be claimed for them, they are still a “qualified person.”
b. A qualifying relative* who is a mother or father and an exemption can be claimed for them. The taxpayer must pay more than half of the cost of keeping up the main home of the mother and/or father for the entire year or more than half of the cost of a rest home or home for the elderly.
c. A qualifying relative* who is a brother, sister, grandparent, half-brother, half-sister, stepbrother, stepsister, other direct ancestors, or relationships established by marriage. Once established, these relationships are not ended by death or divorce. This qualifying relative must live with the taxpayer for more than half of the year and the taxpayer must be able to claim an exemption for them.

*Qualifying Children, qualifying relatives and exemptions will be discussed in the next Chapter.

Example: Bruce and Erin are still legally married as of December 31st of the tax year but they have not lived together since May of that year. Bruce pays for over half the expenses of keeping up his home, and his son Darryl lives with him. Bruce can claim Darryl’s exemption. Bruce meets the tests to be considered unmarried and would file “Head of Household”, while Erin would file “Married Filing Separately.” However, if Bruce and Erin lived together until July, they would either have to file married filing jointly or separately.

Qualified Widow(er) with Dependent Child—If a spouse died during the tax year, in the year that the spouse died, the surviving spouse can still claim “Married Filing Jointly” as their filing status. For the next two tax years following the year in which the spouse died, the surviving spouse may claim “Qualified Widow(er) With Dependent” filing status if the following exist:
1. They were eligible to file a joint return with the deceased spouse in the year of death.
2. They do not remarry.
3. They have a child or stepchild who can be claimed as a dependent (a foster child or grandchild does not meet this test).
4. The child lives in the home all year with the exception of temporary absences.
5. They paid more than half of the cost for the upkeep of a home.

How to Determine the Correct Filing Status

Part II of the IRS intake sheet is designed to help tax preparers accurately determine the correct filing status for the taxpayer. If the taxpayer listed persons in Part II Section 2, Dependent and Family Information, then the preparer must ask the taxpayer questions from Part II Section 2 (described below) and record the answers. These answers will assist the preparer in determining the correct filing status for the taxpayer as well as determining other factors, such as whether the taxpayer qualifies for certain tax credits.

1. Is this person a qualifying child/relative of any other person? If more than one person qualifies to claim a person listed in Part II-S2, then the tiebreaker rules on page C-2 of Publication 4012 should be applied to determine who the appropriate person to claim the child is.
2. Did this person provide more than 50% of his/her own support? If yes, this person may not qualify as a dependent.
3. Did this person have less than $4,150 of income? If no, this person may not qualify as a dependent.
4. Did the taxpayer(s) provide more than 50% of support for this person? If no, this person may not qualify as a dependent under “qualifying relative”.
5. Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? If yes, taxpayer may qualify for Head of Household filing status.

One of the most straightforward and helpful resources to use in determining the taxpayer filing status is Publication 4012, Tab B. Page B-8 contains a decision tree with a series of questions that, when answered correctly, will lead the tax preparer to determining the correct filing status for a taxpayer. All preparers are encouraged to use this resource in making a filing status determination. Once the correct filing status has been determined, it will be recorded on page one, Form 1040.
**Injured Spouse**

If a spouse has a specified past due financial obligation (child support, past federal or state owed tax, student loan, etc.), that can cause the taxpayer’s refund to be garnished by the IRS, the couple may be able to still file “Married Filing Jointly” and protect the other spouse’s refund from being garnished by claiming “injured spouse relief.” The Injured Spouse Allocation Form (8379) differentiates the couple’s taxes, credits, and payments, allowing the “injured spouse” to receive their portion of the credits and refund. To determine if the spouse qualifies for this relief, they must answer all nine questions in Section I of Form 8379. If they qualify for the relief, the items on the return will be allocated or separated between the injured spouse and other spouse. See Publication 17, page 13-14 for more information. This form can be filed electronically with the joint return but could delay the refund from being process by 11-14 weeks.

**Example:** Fred and Mary are a married couple seeking help at your tax site. Fred tells you that he owes back child support from a previous marriage and is afraid they will garnish his and Mary’s refund if they file together. Instead of filing two separate Married Filing Separately returns, you ask them all the questions in Section 1 of Form 8379 and see that Mary qualifies for Injured Spouse Relief. You prepare their joint return and then complete Form 8379 on TaxSlayer.

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**Entering Personal Information**

After determining the correct filing status, the taxpayer’s personal information such as their name, social security number or taxpayer identification number (ITIN), date of birth, and address must be entered into the return. This information is recorded in the top Section of the Form 1040.

We often have taxpayers who have complicated names for tax purposes. It is important that we enter the last name exactly as it appears on the Social Security card or ITIN letter. As the preparer, if you are uncertain of how to enter a last name, refer to Publication 4012, Tab B (pages B13 and B14). As a precaution, you should also input the name exactly as it appears on the Social Security card or ITIN letter on the Intake form (Form 13614-C) or add a note to the tax return on TaxSlayer.

Above are two types of social security card formats. The social security card on the right represents newer social security cards that separate the last name from the first and middle names. The card on the left is formatted with the entire name on the same line. Whenever given a social security card with the name on two lines, it’s safe to assume the name(s) listed on the second line is the way the last name should be represented on the tax return.

**TaxSlayer Entry:**

Use the TaxSlayer Note tool, located next to the taxpayer’s name dropdown box (as seen at left), to help communicate unique situations.
Summary
• This chapter covered the five filing statuses: Single, Married Filing Jointly, Married Filing Separately, Head of Household & Qualifying Widow(er).
• Taxpayers may qualify for more than one filing status. In this case, you should choose the filing status that results in a lower tax.
• In some situations, one spouse in a couple filing separately may qualify to file as head of household.

Out of Scope for VITA
• Innocent Spouse Relief. In certain situations, a married taxpayer will qualify for “Innocent Spouse Relief,” claimed on Form 8857. This is a different circumstance than an injured spouse and occurs when a spouse improperly or dishonestly reported items on their joint return, which resulted in an understatement of taxes. Taxpayers who want to request innocent spouse relief should be referred to a professional tax preparer.

PRACTICE EXERCISE
Use the charts in Publication 4012, Section B to answer the following questions. Check your answers using the Answer Key in Section VI of this guide.

1. Frank divorced his wife Angela three years ago. They have no children and Frank lives alone. Based on this information, which filing status should Frank use?
   a. Single
   b. Married Filing Jointly
   c. Married Filing Separately

2. Michael provided all the cost of keeping up his home for the year. Michael’s son Justin lived with him the entire year. Justin is 22 and was not a full-time student during the tax year, so he cannot be Michael’s qualifying child. Although Justin only worked part-time, he earned too much for Michael to claim him as a qualifying relative dependent. Can Michael file Head of Household?
   a. Yes
   b. No

3. Nancy is single and lives alone. Nancy’s mother, Maxine, lives alone in another city. Maxine receives social security payments, but has no other income. Nancy pays all of the costs of keeping up the home her mother lives in, and provides over half her support. Nancy can claim a dependency exemption for her mother. Can Nancy file Head of Household?
   a. Yes
   b. No

4. In 2008, Claudia and her spouse Raymond adopted two-year-old Rachel. Although eligible to file jointly, Claudia and Raymond always filed separately. In October 2019, Claudia’s spouse died. She continued to support Rachel and she did not remarry. Which filing status should Claudia use for 2019?
   a. Qualifying Widow(er) with Dependent Child
   b. Either Married Filing Jointly (MFJ) or Married Filing Separately (MFS)
   c. Head of Household
   d. Single

5. Using the scenario from question 4: In 2020, Claudia (whose spouse died in 2019) supported herself and her daughter, Rachel, in her own home. If Claudia does not remarry, which filing status should she use for 2020?
   a. Qualifying Widow(er) with Dependent Child
   b. Head of Household
   c. Single
CHAPTER 4

Exemptions & Dependents

Learning Objectives
• What is an Exemption?
• The Difference Between Personal and Dependent Exemptions
• Tests to be a Qualifying Child vs. Qualifying Relative
• Determine Dependency Exemptions

Resources
Publication 4012 (Tab C)

What is an Exemption?
An exemption is a dollar amount that can be deducted (subtracted) from an individual's total income. Under the Tax Cuts and Jobs Act, the deduction for personal and dependent exemptions is suspended (reduced to $0) for tax years 2018-2025. Although the exemption amount is zero, the ability to claim a personal and dependent exemption may make taxpayers eligible for other tax benefits.

There are two types of exemptions when preparing personal income tax returns and different rules apply for each type. The two types of exemptions are Personal Exemptions and Exemptions for Dependents.

The Difference Between Personal and Dependent Exemptions
Personal Exemptions—In order to claim a personal exemption, the taxpayer and their spouse (if applicable) cannot be claimed as a dependent on another person’s tax return. This is true even if the other person elects not to claim them as a dependent. Taxpayers unable to claim themselves may be ineligible for certain tax credits and may reduce their standard deduction (discussed in Chapter 11). If they can be claimed as a dependent, the box on Form 1040, page 1, “someone can claim you as a dependent” or “someone can claim your spouse as a dependent” must be marked.

A spouse is never considered a dependent. Therefore, on a joint return, two personal exemptions are claimed, one for the taxpayer and one for the spouse.

Dependents—Although the monetary exemption amount is zero, the ability to claim a dependent may make the taxpayer eligible for other tax benefits. In order to claim another person as a dependent, they must be the taxpayer’s “qualifying child” or “qualifying relative.”

Tests to be a Qualifying Child vs. Qualifying Relative
1. Tests to be a qualifying child:
   a. Relationship Test: The child must be your son, daughter, stepchild, foster child, brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendent of any of them.
   b. Age Test: The child must either be (a) under age 19 at the end of the year, (b) under age 24 at the end of the year, a full-time student, and younger than you (or spouse if filing jointly), or (c) any age if permanently and totally disabled.
   c. Domicile Test: The child must have lived with you for more than half of the year.
   d. Joint Return Test: The child must not file a joint return, unless the person has no tax liability and is only filing a joint return to claim a refund of income tax withheld or estimated tax paid.

See Publication 4012, Tab C for the tax specific definitions for student, permanently and totally disabled, custodial and noncustodial parent, and foster child.
e. **Support Test:** The child must not have provided more than half his or her own support or be the qualifying child of more than one person. If they can be claimed by another person, you must be the person entitled to claim the child as a qualifying child according to the tie-breaking rules under “Qualifying Child of More Than One Person” on page C-2 of Publication 4012.

f. **Citizenship Test:** The child must be a U.S. citizen, a resident of the United States, Canada, or Mexico, or an alien child adopted by and living with a U.S. citizen all year.

2. Tests to be a qualifying relative:
   a. The person cannot be your qualifying child or the qualifying child of any other taxpayer in the same year.
   b. **Relationship or Member of Household Test:** The person must be related to you in one of the ways listed on Table 2, page C-4 of Publication 4012 or must live with you all year as a member of your household.
   c. **Gross Income Test:** The person’s gross income for the year must be less than $4,200. For more information on gross income, see “Overview of the Rules for Claiming a Dependent” on page C-1 of Publication 4012.
   d. **Joint Return Test:** The dependent must not file a joint return unless the person is only filing a joint return to claim a refund of income tax withheld or estimated tax paid.
   e. **Support Test:** You must provide more than half of the person’s total support for the year.
   f. **Citizenship Test:** The dependent must be a U.S. citizen, a resident of the United States, Canada, or Mexico, or an alien child adopted by and living with a U.S. citizen all year.

In addition to these rules, in order to claim a qualifying child or relative, the taxpayer and/or their spouse cannot be the qualifying child or relative of another person.

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**Multiple Support Agreement**—Form 2120, Multiple Support Declaration, can be used if two or more individuals jointly provide more than half of the support of an individual but are unable to claim that person because individually they do not provide more than half of the support and fail the support test. This form can be used to identify the taxpayer who is claiming the dependent and identifies the other who agreed not to claim the dependent. Multiple support agreements apply only to a qualifying relative, not to a qualifying child.

**Support Test for Children of Divorced or Separated Parents**—The custodial parent will usually be able to claim the child as a dependent because they provided more than half of the child’s support because the child lived with them for the greater part of the year. The custodial parent can release the exemption to the noncustodial parent and may legally be required to do so if agreed or decreed during a legal separation or divorce. In order to release the exemption, the child must have received over half of his or her support from their parents and could not have been supported by a separate guardian. The child must have also been in the custody of one or both parents for more than half the year.

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**Tip:** Many taxpayers don’t know what it means to “claim themselves” and assume that if they are filing a tax return then they should also claim themselves. It is up to the tax preparer to ask probing questions to determine if the taxpayer could be claimed by anyone else.
If both conditions are met, a custodial parent can release the exemption to the noncustodial parent by using Form 8332 or certain pages from the divorce decree, depending on when the decree or agreement went into effect. If there is a divorce decree or separation agreement that was made between 1984-2009 and contains all three of the following items, the noncustodial parent can claim the child as a dependent by attaching either Form 8332 or certain pages of the divorce decrees or agreements. The three items are:

1. The noncustodial parent can claim the child as a dependent without regard to any condition, such as payment of support.
2. The custodial parent will not claim the child as a dependent for the year.
3. The years for which the noncustodial parent can claim the child as a dependent.

If the divorce decree or separation went into effect after 2008, the noncustodial parent cannot attach pages from the decree or agreement instead of Form 8332. The custodial parent must sign, and the noncustodial parent must attach Form 8332 to his or her return.

Determine Dependency Exemptions

Determining these exemptions can be complicated. Volunteers should utilize the charts in Tab C of Publication 4012 to correctly determine the dependency exemptions for a tax return:

Overview of the Rules for Claiming a Dependent—This chart offers a general overview for determining dependency exemptions. Volunteers should first see if a person meets the requirements to be a qualifying child. If they do not meet the requirements, volunteers should then check to see if the individual would be a qualifying relative.

Table 1: All Dependents—This table (and the subsequent tables) offers a more in-depth question and answer format to help determine whether an individual meets the tests to be a qualifying child or qualifying relative.

Summary

• This chapter discussed personal and dependency exemptions.
• Exemptions are worth $0, but they affect filing status and can determine eligibility for certain credits.
• There are two types of dependency exemption: Qualifying Child and Qualifying Relative.
• Volunteers should use the charts and tables in Publication 4012 (Tab C) to determine these exemptions for each individual on the tax return.

PRACTICE EXERCISE

Use the charts in Publication 4012, Tab C to answer the following questions. Check your answers using the Answer Key in Section VI of this guide.

1. Kindra is an eighteen-year-old single mother who can be claimed as a dependent by her parents. Can Kindra claim her infant son as a dependent on her own tax return?
   a. Yes
   b. No

2. Bob is 22 and a full-time student for the entire year. During the tax year, he lived with his parents when he was not in the dorm. During the tax year, he worked part-time, but that income did not amount to half of his total support. Does Bob pass the tests for a qualifying child?
   a. Yes
   b. No

3. Jorge supports his wife’s uncle Anthony who is single, lives in another city and made less than $4,000. Jorge and his wife file a joint return. Can they claim Anthony as a dependent if all other tests are met?
   a. Yes
   b. No
4. Minh, a U.S. citizen, is 8 years old and had a small role in a television series. He made $60,000 during the tax year, but his parents put all the money in a trust fund to pay for college. He lived with his parents all year. Do his parents meet the support test to claim him as a dependent?
   a. Yes
   b. No

5. What if Minh, the same 8-year-old actor from the previous question, earned $60,000 during the tax year, but his parents used the money to pay for all of Minh’s support and most of the household expenses: would his parents still meet the support test to claim him as a dependent?
   a. Yes
   b. No
CHAPTER 5

Income:
Wages, Interest, Dividends, Alimony & Taxable Refunds

Learning Objectives
• What is Income?
• Wages, Salaries, Tips, etc.
• Interest Income
• Dividends and Other Corporate Distributions
• Taxable Refunds
• Alimony Received

What is Income?
Gross income is defined under the tax law as, “all income from whatever source derived.” For this purpose, the U.S. government considers all income taxable unless the income is declared exempt under current tax law. In Chapters 5-9, you will learn about the different types of taxable incomes in the order they appear on Form 1040 and Schedule 1. For a partial list of exempt income, see Table B on page D-1 of Publication 4012.

Wages, Salaries, Tips, etc.
Any individual who is considered an employee should receive a Form W-2, Wage and Tax Statement from their employer showing the pay they earned for their services. They should receive a W-2 for each job they had. If preparing a joint return, include income (W-2s) of both spouses. Do not include the income of any dependents listed on the return. Those dependents would need to file their own return to report the income and recover any eligible refund. The sum of all W-2 earnings will total on Line 1 of Form 1040. Form W-2 is the most commonly seen form at Tax Help Colorado sites.

Tips for Form W-2
Boxes 3 & 5—Social Security and Medicare wages: Boxes 3 and 5 may report a different amount than Box 1. As discussed earlier, Box 1 contains an employee’s total wages subject to federal income tax. Boxes 3 and 5 may report higher wages because most benefits that are exempt from federal income tax are not exempt from Social Security and/or Medicare tax. When entering information into TaxSlayer it’s important to accurately change boxes 3-6 to match exactly what is on the taxpayer’s W-2.

Box 9—Verification code: This code assists the IRS in validating the W-2 data submitted with the taxpayer’s return. It’s important to include this code, if present, when copying information from the W-2 into the tax filing software.
Box 10—Total dependent care benefits that an employer paid to the taxpayer or incurred on their behalf. The amount will flow to Form 2441, Child and Dependent Care Expenses, to compute any taxable and nontaxable amounts. It is important to report expenses accrued for child and dependent care on Form 2441 to correctly identify taxable and nontaxable amounts. See Chapter 12 for more information.

Box 12—Entries in this box have to do with adjustments to Wages (box 1) with special tax treatment. The type of item and tax treatment are identified by codes (A through EE), listed in Publication 4012, page D-6. These code descriptions are also sometimes located on the back of a W-2.

Box 13—if any of these boxes are checked, special tax treatment may be involved.

**Statutory Employees:** If this box is checked, report their wages, income, and allowable expenses on Schedule C or C-EZ (requires advanced certification), along with filing federal Form 1040. See Chapter 6 for more information about these schedules.

**Retirement Plan:** If this box is checked the employee was an active participant in a designated plan and may qualify for the retirement contribution credit discussed in Chapter 12.

**Third Party Sick Pay:** If this box is checked it means the employee received compensation from a third party for a temporary absence from work due to injury, sickness, or disability. No further action is necessary.

Box 14—Used for other information like union dues and health insurance premiums. If the amount in box 14 indicates a contribution to a qualifying retirement account, it’s important to identify this when entering it into the tax software. See Chapter 12 for more information.

Boxes 15 through 20—These boxes include state and local wages and withholdings. Amounts will carry over to state tax return (CO 104). If the state listed in box 15 differs from their primary residence, it’s important to ask follow up questions to understand when the taxpayer worked or lived in a different state. This may indicate they are a part-year, full-year or nonresident of multiple states. See Chapter 18 for more information.

**ITINs and Social Security Number on W-2**—A taxpayer with an ITIN will have a tax identification number on their W-2 that differs from their ITIN. In this situation, the tax return is filed using the ITIN and the W-2 on TaxSlayer must be corrected to reflect the same social security number listed on the actual W-2.

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**Interest Income**

 Interest income is earned from investments that pay interest, such as a savings account or certificate of deposit. Generally, interest is reported on Form 1099-INT (example on next page) or a similar statement such as the last statement from the month of December (referred to as a substitute Form 1099-INT) by banks, savings and loans, and other payers of interest. The 1099-INT shows the interest received for the year. If a taxpayer received less than $10 in interest, the financial institution might not issue Form 1099-INT. Even if the taxpayer did not receive Form 1099-INT, they must still report all their taxable interest as income. Interest income is totaled on Form 1040, Line 2.

 There are other distributions commonly called dividends that will be reported as interest on the tax return. These types of dividends come from credit unions, cooperative banks, domestic building and loan associations, federal saving and loan associations, and mutual savings banks. Certain types of interest are exempt from federal income tax. However, they may be taxable on the state tax return. Sometimes the reverse is true; the interest may be taxable on the federal return and exempt from state income tax. For example:

- U.S. Savings Bonds in series HH, EE and I, are subject to federal income tax but not state or local income tax.
- Interest from State or Municipal Bonds are excluded from federal income tax but may still be included as state income.

*Use Publication 4012, Tab D for instructions on how to enter tax exempt interest.*
Original Issue Discount—1099-OIDs are issued to report the interest made from a debt instrument like a bond. This is treated exactly like interest income and should be reported in the Interest section in TaxSlayer.

Dividends & Other Corporate Distributions

Most dividends are reported to individuals on Form 1099-DIV, Dividends and Distributions, from corporations that paid dividends or distributions during the year. Ordinary Dividends are reported in Box 1a of Form 1099-DIV, Qualified Dividends are reported in Box 1b of Form 1099-DIV, and Capital Gain Distributions are reported in Box 2a of Form 1099-DIV. Dividend income is totaled on Form 1040, Line 3.
Taxable Refunds

Refunds of state or local taxes are reported to individuals in Box 2 of Form 1099-G, Certain Government Payments, often issued by the Department of Revenue. Colorado 1099-G are reported on postcard sized forms. If the taxpayer used state taxes as an itemized deduction on their prior year tax return, the refund is taxable. If the taxpayer did not use state taxes as an itemized deduction in the prior year, the refund is not taxable.

Individuals who itemized their deductions in the previous year and received a state or local tax refund generally must include that refund as income. Taxpayers who had a small difference between their total itemized deductions and the correct standard deduction they could have taken in the prior year will not be taxed on their full state refund amount. Federal tax refunds are never taxable as income because deductions are not allowed for federal income tax paid. Taxable refunds are reported on Schedule 1, Line 1 and totaled with other income on 1040 Line 7a.

Tip: Only 1% of Tax Help Colorado taxpayers itemized last year! The tax preparer should pay extra attention to Part III, question 5 of the intake sheet (Form 13614-C), which asks if the taxpayer or their spouse received a refund of state/local income taxes. If the taxpayer marked "yes" or "unsure" to this question because they did receive a refund but didn’t receive the form, ask if they itemized their deductions the previous year. If they did not itemize (99% of Tax Help CO taxpayers) you can change the answer to "no" and move on. If the taxpayer did itemize last year, the taxpayer should have a copy of their prior year tax return in order to properly compute the taxable portion of their prior year state tax refund. If the taxpayer does not have their prior year return, the taxpayer will be taxed on the full amount of their state tax refund reported on 1099-G.

The State of Colorado does not mail out a traditional looking Form 1099-G. The state refund information is sent to each taxpayer in the form of a 1099-G postcard.

Sample Form 1099-G

Note: Unemployment compensation is also issued on a Form 1099-G but is reported in Box 1. Refer to Chapter 9 for more detail.
**Alimony Received**

Alimony is a payment to or for a spouse or former spouse under a divorce or separation instrument and needs to be reported by the spouse receiving the alimony payments as income. Alimony does not include either child support or noncash property settlements. In accordance with the Tax Cuts and Jobs Act, alimony received from a divorce executed or revised after December 31, 2018 will not be reported as taxable income. Generally, the taxpayer will not have a form showing this information, however, it must still be reported. Alimony is reported on Schedule 1, Line 2a and totaled with other income on Form 1040, Line 7a.

**Summary**

- This chapter discussed income including wages (Form W-2), interest (Form 1099-INT), dividends (Form 1099-DIV), taxable state refunds (1099-G) and alimony received.
- Generally, information for these incomes should be reported in TaxSlayer exactly as they are shown on their corresponding forms.
- Volunteers should refer to Publication 4012 (Tab D) for tips on entering this information into the tax software.

**Out of Scope for VITA**

*This is not a complete list. Refer to Publication 4012, Tab D for other situations that are out of scope for VITA.*

- Taxpayers with Farm income
- Taxpayers who buy or sell bonds between interest payment dates
- Form 1099-DIV with amounts listed in boxes labeled Unrecap. Sec. 1250, Section 1202 gain, Cash liquidation distributions, and Noncash liquidation distributions
- State or local income tax refunds received during the current tax year for a year other than the previous tax year
- Alimony/divorce agreements executed before 1985

**PRACTICE TAX RETURN**

Instructions: The following practice tax return will be covered during the first in-person tax training. You are not required to complete it before your first training, but are welcome to work on it if you desire. Use Publication 4012, Tabs A-D to prepare this return using the TaxSlayer software. Check your answers using the Answer Key in Section VI of this guide.

*Note: The social security numbers for practice returns are incomplete. You may fill in the “x” with any number. This is only for use in the practice lab—social security numbers for actual returns should be entered exactly based on the card.*

**Interview Notes – Beringer**

- Sheryl has two children, Courtney and Artis Johnson, who live with her full time. She has been divorced since 2010. She paid all the expenses and provided all of her children’s support.
- Sheryl’s mother, Monica Jesse, also lives with her full time. Sheryl provides over half of her support. Monica’s only income is from Social Security and a small amount of bank interest. She spends her SSA benefits on her medical expenses and does not contribute to the household expenses.
- Sheryl receives $200 each month in alimony payments from her ex-spouse.

**Documents**

![Social Security Card](image1)

![Social Security Card](image2)
Form 13614-C
(October 2019)

Intake/Interview & Quality Review Sheet

You will need:
- Tax information such as Forms W-2, 1099, 1098, 1095.
- Social security numbers or ITIN letters for all persons on your return.
- Picture ID (such as a valid driver’s license) for you and your spousal.
- If you have questions, please ask the IRS-certified volunteer preparer.

Volunteers are trained to provide high quality service and uphold the highest ethical standards.
To report unethical behavior to the IRS, email us at: voltax@irs.gov

Part I – Your Personal Information (If you are filing a joint return, enter your names in the same order as last year’s return)

1. Your first name: **SHERYL** Last name: **BERINGER**
2. Your spouse’s first name: **MI** Last name: **LAURA**
3. Mailing address: **1717 TUDOR AVENUE** Apt #: **LAKEWOOD** City: **STATE** CO ZIP code: **80228**
4. Your Date of Birth: **12/18/1964**
5. Your job title: **SALES MANAGER**
6. Last year, were your a Full-time student Yes ☑ No ☐ Legally blind Yes ☐ No ☑
7. Your spouse’s Date of Birth: **8/3/1967**
8. Your spouse’s job title: **SALES ASSOCIATE**
9. Last year, was your spouse a Full-time student Yes ☑ No ☐
10. Can anyone claim you or your spouse as a dependent? ☑ Yes ☐ No ☐
11. Have you, your spouse, or dependents been a victim of tax related identity theft or been issued an Identity Protection PIN? ☑ Yes ☐ No

Part II – Marital Status and Household Information

1. As of December 31, 2019, what was your marital status? ☑ Never Married ☐ Married
   a. If you were married in 2019, did you get married in 2019? Yes ☑ No ☐
   b. Did you live with your spouse during any part of the last six months of 2019? Yes ☑ No ☐
   ☑ Divorced Date of final decree: **02/01/2010**
   ☐ Legally Separated Date of separate maintenance decree:
   ☚ Widowed Year of spouse’s death:

2. List the names and relationship to you if you have one of the following:
- Name (first, last) Date of birth (mm/dd/yyyy) Relationships to you (for example: son, daughter, parent, etc.)
- Number of months lived in your home last year
- US Citizen? Yes ☑ No ☐, Resident of US, Canada, or Mexico last year (yes/no?)
- Single or Married as of 1/1/2019 (yes/no?)
- Full-time student last year (yes/no?)
- Total and permanently disabled (yes/no?)
- Is this person a qualifying relative of any other person (yes/no?)
- Did this person provide more than 50% of that person’s support (yes/no?)
- Did this person have less than $4,200 of income? (yes/no?)
- Did the taxpayer(s) make more than 50% of their support? (yes/no/NA)
- Did the taxpayer(s) pay more than 50% of the child support for this person? (yes/no/NA)

**ARTIS JOHNSON** 12/23/2002 SON ☑ YES ☑ YES ☑ YES ☑ NO
**COURTNEY JOHNSON** 03/01/2002 DAUGHTER ☑ YES ☑ YES ☑ YES ☑ NO
**MONICA JESSE** 05/09/1934 MOTHER ☑ YES ☑ YES ☑ NO ☑ NO

Catalog Number 5217E www.irs.gov
### Part III – Income – Last Year, Did You (or Your Spouse) Receive

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1. (B) Wages or Salary? (Form W-2)   If yes, how many jobs did you have last year? 2
2. (A) Tip Income?
3. (B) Scholarships? (Forms W-2, 1096-T)
4. (B) Interest/Dividends from checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
5. (B) Refund of state/local income taxes? (Form 1099-G)
6. (B) Alimony income or separate maintenance payments?
7. (A) Self-Employment Income? (Form 1099-MISC, cash)
8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
9. (B) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home?) (Forms 1099-S, 1099-B)
10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
11. (A) Retirement income or payments from Pensions, Annuities, and/or IRA? (Form 1099-R)
12. (B) Unemployment Compensation? (Form 1099-G)
13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
14. (M) Income (or loss) from Rental Property?
15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, royalties, foreign income, etc.) Specify

### Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay

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1. (B) Alimony or separate maintenance payments? If yes, do you have the recipient’s SSN?  □ Yes □ No
2. Contributions to a retirement account? □ IRA (A) □ 401K (B) □ Roth IRA (B) □ Other
3. (B) College or post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)
4. (A) Any of the following? □ Medical & Dental (including insurance premiums) □ Taxes (State, Real Estate, Personal Property, Sales) □ Charitable Contributions □ Mortgage Interest (Form 1098)
5. (B) Child or dependent care expenses such as daycare?
6. (B) For supplies used as an eligible educator such as a teacher, teacher’s aide, counselor, etc.?
7. (A) Expenses related to self-employment income or any other income you received?
8. (B) Student loan interest? (Form 1098-E)

### Part V – Life Events – Last Year, Did You (or Your Spouse)

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1. (HSA) Have a Health Savings Account? (Forms 5198-SA, 1099-SA, W-2 with code W in box 12)
2. (A) Have credit card or mortgage debt canceled/forgiven by a lender or have a home foreclosure? (Forms 1099-C, 1099-A)
3. (A) Adopt a child?
4. (B) Have Earned Income Credit, Child Tax Credit or American Opportunity Credit disallowed in a prior year? If yes, for which tax year?
5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)
6. (A) Receive the First Time Homebuyers Credit in 2008?
7. (B) Make estimated tax payments or apply last year’s refund to this year’s tax? If so, how much?
8. (A) File a federal return last year containing a “capital loss carryover” on Form 1040 Schedule D?
9. (A) Have health coverage through the Marketplace (Exchange)? [Provide Form 1095-A]
For Advanced Certification

- **Unreported Tip Income**—Tipped employees may need to report unreported tip income. The unreported tip income would come from information provided by the taxpayer, not on the W-2. If the taxpayer indicates they had tip income, ask if they reported their tips to their employer. If they did, it should be included in box 7 or 8 of their W-2. If they did not report their tip income to their employer it will needed to be reported separately. To report tip income that does not appear on the taxpayer’s W-2, Form 4137 will need to be added. This form will add the income to Line 1 on Form 1040 and the appropriate tax will be added to Line 5 on Schedule 2.
CHAPTER 6

Business Wages

Learning Objectives
• What is Business Income?
• Advanced Certification Required
• Completing the Schedule C/C-EZ: General Information, Income, Expenses

What is Business Income?
If an individual is self-employed, operates a business, practices a profession as a sole proprietor, or acts as a contractor for a corporation, then the income and expenses for that business or practice must be reported on a Schedule C-EZ or Schedule C. Independent contractors who operate a business, or are in an independent trade, or are in a profession where they offer their services to the general public are considered independent contractors and self-employed for tax purposes.

Some good examples of independent contractors are drivers for ride-sharing apps, laborers, babysitters, hair stylists, landscapers, artists and general contractors.

Advanced Certification Required
Reporting business income on a tax return can be complicated. Volunteers who wish to prepare returns with business income will need to pass the Advanced Certification test to do so. Volunteers who are only taking the Basic Certification test will not be tested on the rest of the information in this chapter.

Completing the Schedule C/C-EZ
General Information
The general information portion of both Schedule C and C-EZ is in regards to the principal business or profession the taxpayer conducts. It is important to make sure the information reflected in this section is not that of the payer who contracted with the taxpayer to do a job but the information of the taxpayer completing Schedule C.

• Business Name: Enter business name. If there is not a separate business name, leave blank. Do not enter the name of the payer that issued the 1099-MISC form.
• Employer ID: Enter the Employer Identification Number on this line if it is different from the taxpayer’s social security number. Do not enter the EIN of the payer that issued the 1099-MISC form.
• Business Code: Enter the six-digit code that best identifies the principal business or activity. This can be found in TaxSlayer.
• Description of Business: Gives the general field or activity and the product or service. This description is automatically entered once you select the code from TaxSlayer’s lookup tool.

Tip: The TaxSlayer software does not distinguish between Schedule C and C-EZ. The Schedule C requires the same data to be entered as the C-EZ.

Resources
Publication 4012
(Tab D, Pages D14-D21)

Sole Proprietor: Someone who owns an unincorporated business by him or herself.
Contractor: Someone is an independent contractor if the payer has the right to control or direct only the result of work done, but not the process. Common examples are doctors, lawyers, and accountants.
Example: Kelly drives for Lyft part time. To correctly fill out the general information section of Schedule C/C-EZ, the tax preparer would leave the business name, address, and EIN blank. After checking the list of business codes, the tax preparer selects code 485300 for “Taxi and Limousine Services.”

Income
All income for the taxpayer’s business, regardless of whether it has an associated form or not, must be recorded on line 1 “Gross Receipts or Sales” of either Schedule C or C-EZ. Business income information may come from the following:

- Forms 1099-MISC, box 7, nonemployee compensation
- Taxpayer’s books and records
- Forms 1099-K, Merchant Card and Third-Party Payments
- Forms W-2, with Statutory Employee checked in box 13

Tip: Regardless of other income, if a taxpayer made over $400 in self-employment income during the tax year, he or she will be required to file a tax return and pay a self-employment tax. This is regardless of whether the taxpayer was issued Form 1099-MISC or not. Some taxpayers might not identify themselves as self-employed, however, if a company issues them a 1099-MISC with income reported in box 7, they are not considered employees of that company and are legally obligated to file the form as self-employment income.

Tip: Lyft and Uber use forms 1099-MISC and 1099-K to report different types of payments made to their drivers. It’s best for the taxpayer to go to the app’s dashboard to get a print out of all income and expenses.

As these types of jobs become increasingly more popular at our tax sites, it’s important to understand what types of payments are represented on each form to file an accurate return. You can learn more by going to www.eitcoutreach.org/rideshare/ or ask your instructor/site coordinator for more information.
Expenses

Taxpayers must deduct their business expenses to determine their net profit or loss. Business expenses are amounts that are considered ordinary and necessary to carry on the business. An ordinary expense is one that is common and accepted in their specific business. A necessary expense is one that is helpful and appropriate for the taxpayer’s trade or business. All ordinary and necessary business expenses incurred in a self-employed taxpayer’s business must be reported.

Examples of some of the most common expenses seen at VITA sites include:

- **Car and Truck Expenses**: Vehicle expenses can be calculated using actual expenses or the standard mileage rate. More detailed information is available later in this chapter.
- **Supplies**: Includes costs for general operating supplies not associated with the cost of goods sold.
- **Office Expense**: Includes supplies such as pens, paper, and postage.
- **Advertising**: Costs associated with promoting the business.
- **Taxes and Licenses**: Including business licenses and regulatory fees paid to operate their business.
- **Commissions and Fees**: This can be paid to both individuals and businesses. Must be less than $600 per vendor and does not apply to payments made to corporations, to stay within scope for VITA sites.

Less common expenses within scope of VITA sites include:

- **Insurance**: This could include property, automobile, and malpractice insurance. If the standard mileage rate is used, the taxpayer would not be allowed to also deduct auto insurance. Health insurance for the taxpayer and his or her family is not a deductible business expense on the Schedule C/C-EZ. However, Health Insurance is considered an adjustment, not a deduction. See Chapter 9 for more details.

Tip: Defining what is ordinary and necessary leaves a lot up to interpretation on the part of the taxpayer and preparer. While it is often beneficial to the taxpayer to report every expense, as a Tax Help Colorado preparer it is always best to consider what would be accepted by the IRS in the case of an audit. If you are unsure about an expense, be sure to ask your Site Coordinator or Instructor.

It’s also important to ask a taxpayer if they have written records of their expenses. This will be important if the taxpayer has to show proof to the IRS.
Car and Truck Expenses

Taxpayers can either deduct the standard mileage rate or the actual expenses of maintaining and operating their vehicle.

Actual expenses may include gas, oil, repairs, insurance and depreciation. Deducting the vehicle’s actual expenses is out of scope for VITA sites. If the taxpayer used actual expenses in the past, or wish to use actual expenses in the current year, they must be referred to a professional tax preparer.

The standard mileage rate in 2019 is 58 cents per business mile. In addition, expenses for tolls and parking fees can be added to the standard mileage rate.

Use the following graphic to determine when mileage is considered a deductible business expense:

- Description of vehicle.
- Date the vehicle was placed in service for the use of the business.
- Miles the vehicle was driven must be broken out into a) business miles, b) commuting miles and c) other (personal) miles. The diagram on the previous page (Publication 17, Figure 20-B on page 146) helps determine deductible business miles. The standard mileage rate for business miles driven is $0.58.
- If the vehicle is used or available for personal use, the taxpayer will answer “yes.”
- Answer is “yes” if another vehicle, other than the vehicle used for business purposes, is owned by the taxpayer or spouse.
- Taxpayer needs to indicate if adequate evidence is available to support the vehicle expenses and whether the information is written.

*Entertainment expenses are no longer deductible for self-employed taxpayers.*

What are other expenses?

If an expense falls outside of the above categories, there is a good chance it is not deductible or is out of scope for VITA volunteers. Always consult with your Site Coordinator or Instructor before listing expenses as “Other Expenses” or “Miscellaneous.”

- Other Interest: Includes interest paid on operating loans but not mortgage interest
- Legal and Professional Services: Includes fees paid to professionals, such as attorneys, accountants, appraisers, and engineers.
- Rent or Lease—Vehicle, Machinery, and Equipment: Includes fees for cars, trucks, vans, machinery, equipment, and other personal property. Rentals and leases of more than 30 days are out of scope for VITA sites.
- Repairs and Maintenance: Includes repairs on equipment, office space, and buildings.
- Travel Meals*: Generally, a taxpayer can only deduct 50% of the total amount of expenses for meals when these expenses are incurred while away from home on business (including “in-town” meetings). See Publication 17, page 184 Figure 26-A to determine whether there may be an exception to the 50% rule.
- Utilities: Includes normal electric, gas, water, and telephone/cell phone expenses for the business. If the utilities are part of the taxpayer’s personal residence, this deduction would be out of scope for VITA sites.

* Entertainment expenses are no longer deductible for self-employed taxpayers.
**Example:** Returning to Kelly, the Lyft driver, some ordinary and necessary business expenses she may have are business miles, fees and commissions paid to the app, and cell phone bills. She may have receipts for car insurance, gas, and car maintenance but wouldn’t be able to include those expenses if she already chose to deduct her business miles. It wouldn’t be considered ordinary and necessary to deduct the purchase of a gym membership to make her arms look toned while driving. What other expenses do you think would be allowable?

**Net Profit or Loss**
A net profit or loss is determined after deducting all allowable expenses. If the expenses exceed the gross income, a loss is determined. In a net operating loss scenario, taxpayers have the opportunity to carry the loss back 2 years or forward 20 years. Due to the complexities of handling tax planning for multiple years, taxpayers who have a net loss for the tax year are out of scope for all VITA sites. If the gross income is greater than their allowable expenses, the taxpayer will report a net profit.

**Self-Employment Tax**
If the net profit is over $400, it will be subject to a self-employment tax. Self-employment tax is used to collect taxes for Medicare and Social Security taxes that is usually split between an employer and employee. Since self-employed individuals are both the employer and employee they cover both parts of these taxes. For taxpayers with self-employment income under $128,400 (in 2018), any self-employment income over $400 will be taxed at 12.4% for Social Security and 2.9% for Medicare, in addition to their individual income tax rate. Taxpayers can deduct up to half of this amount as an adjustment to income. See Chapter 10 for more information.

**Qualified Business Income Deduction**
The new tax law includes the Qualified Business Income Deduction (QBID). This allows eligible individual taxpayers, certain trusts, and estates to take up to a 20% deduction of their qualified business income. There are several limitations on the QBID, and more information on this deduction will be available in Chapter 11.

**Summary**
- Business income must be reported on Schedule C/C-EZ, which requires Advanced Certification.
- Taxpayers with business income over $400 must file a tax return.
- All income a taxpayer receives for their business must be included on their tax return, even if it was not reported on a form.
- Business income should never be reported as “other income.”

**Out of Scope for VITA**
*This is not a complete list. Refer to Publication 4012, Pages D-17, D-19 & D-20 for other business income situations that are out of scope for VITA.*
- Expenses over $25,000
- Cost of goods sold (inventory)
  - Inventory includes finished products or work-in-process. Inventory may or may not be immediately ready for sale.
- Expenses for employees or contract labor
-Rentals over 30 days
- Business use of home
- Casualty losses
- Actual vehicle expenses: Gas, new tires, oil changes, vehicle parts, etc.
- Depreciation or asset write-offs
- Net losses

**PRACTICE EXERCISE**

Use Publication 4012, Tab D and Chapter 6 of this volunteer guide to answer the following questions. Check your answers using the Answer Key in Section VI of this guide. Practice tax returns are also available—contact Tax Help Colorado staff.
1. Which of the following does not count as self-employment income?
   a. A one-time payment received for a taxpayer’s personal coin collection
   b. $780 reported in box 7 of 1099-MISC
   c. Cash paid for helping neighbors clean their gutters
   d. A and C

2. Every self-employed taxpayer must include all allowable deductions in computing net earnings from self-employment if they qualify for the Earned Income Tax Credit.
   a. True
   b. False

3. Olivia is a self-employed masseuse and does not maintain an office in her home. She does neck massages for office workers and travels to two office buildings each work day. It is 10 miles from home to the first office, 13 miles from the first office to the second office, and 5 miles from the last office back home. How many deductible miles does Olivia drive each day?
   a. 13
   b. 15
   c. 28

4. Which of these self-employment scenarios is a return able to be completed at Tax Help Colorado sites?
   a. Kayla started a new business towards the end of the year and received $750 in payments and had $1,000 worth of allowable expenses.
   b. Alex did not record his business miles and is not making an accurate estimate but would like to deduct the cost of vehicle repairs including new tires and a new transmission.
   c. Brooke worked as a babysitter during the year. She received $13,450 in payments. Her expenses included $600 in advertisements, $900 in diapers, $300 for toys and crafts, $2,550 for snacks for the children, and logged 1,380 business miles.
   d. Cassandra sold jewelry online as an extra source of income. At the end of the year she sold 30 necklaces and 13 bracelets but at the end of the year still had 6 of each leftover.

5. Luis had self-employment income of $9,732 reported in box 7 of Form 1099-Misc. and has receipts for tools and supplies of $2,603. When entering the expenses into the tax return, Luis noticed that his refund went down. Luis asked the tax preparer to take the expenses off the return to help get the maximum refund. Is this allowable by the IRS?
   a. Yes
   b. No
CHAPTER 7

Capital Gains & Losses

Learning Objectives
• What is a Capital Gain or Loss?
• Advanced Certification Required
• Key Terms: Basis, Proceeds, Holding Period, Wash Sales
• What is Capital Loss Carryover?
• Sale of Personal Residence

What is a Capital Gain or Loss?
Generally, a sale or trade of a capital asset results in a capital gain or loss. For the most part, everything we own and use for personal purposes, pleasure, or investment is a capital asset, including stocks or bonds; a house; household furnishings; cars; coin or stamp collections; gems and jewelry; and gold, silver or other materials. Typically, an asset’s basis is its cost. A taxpayer will have a capital gain if they sell the asset for more than its basis. It’s considered a capital loss if they sell the asset for less than its basis. Losses from the sale of personal-use property, such as your home or car, are not deductible. Capital gains and losses are reported on Schedule D, Capital Gains and Losses, and Form 8949, Sales and Other Dispositions of Capital Assets. These gains or losses are then transferred to Line 4 of Schedule 1.

Our focus in this section on capital assets will be on the sale of stocks, mutual bonds, and personal residence, which will be reported on Form 1099-B, Proceeds from Broker and Barter Exchange or Form 1099-S, Proceeds from Real Estate Transactions.

Advanced Certification Required
Volunteers who wish to prepare returns with capital gains/losses will need to pass the Advanced Certification test to do so. Volunteers who are only taking the Basic Certification test will not be tested on the rest of the information in this chapter.

Key Terms
To report capital gain or loss, you will need to identify the basis, proceeds for sale and holding period of the property sold. Most of this information should be reported on Form 1099-B. (See example on next page)

Basis
To compute gain or loss on a sale, taxpayers must provide the basis of the sold property. The basis of the property is usually its original cost. An adjusted basis includes the original cost, plus any increases or decreases to that cost (such as commissions, fees, depreciation, deductible casualty losses, insurance reimbursements or major improvements). Brokers must report the cost or other basis on Form 1099-B. It is important to report if 1099-B was received and whether or not it showed basis reported to the IRS. If the basis cannot be provided, the IRS will deem the cost to be zero and the taxpayer will have to report any proceeds from sale as the total gain.

Example: Tracey purchased an old, damaged table from a second-hand store. After refinishing the table she sold it for a higher price. When reporting the sale, Tracey can increase her basis to include the purchased items used to refinish the table.
Proceeds
Form 1099-B will reflect the gross or net proceeds for a stock or mutual fund. Form 1099-S usually reflects gross proceeds of real estate transactions. To figure the capital gain or loss on a sale, subtract the basis or adjusted basis from the proceeds.

Holding Period
The date a stock was purchased and the date the stock was sold will normally determine its holding period.
• Property held less than a year is considered short-term capital gains/loss
• Property held more than one year is long-term capital gains/loss.
• Inherited property is always considered a long-term capital gain or loss, even if the recipient of the inheritance only held the asset for less than a year.
This distinction is important because long-term capital gains are taxed at a lower rate than short-term gains.

Refer to Publication 4012, Tab D for instructions on entering capital gain information into TaxSlayer.

Wash Sales
If an individual sells or trades their stock or security at a loss, while purchasing substantially identical stock or security within 30 days (before or after the sale), that individual cannot deduct the loss. The disallowed loss is added to the cost of the new stock or securities. The result is an increase to the basis in the new stock or securities. This adjustment postpones the loss deduction until the sale of the new stock or securities. The holding period for the new stock or securities includes the holding period of the old stock or securities.

Example: Ernesto buys 100 shares of X stock for $1,000. He sells these shares for $750 and within 30 days from the sale buys 100 shares of the same stock for $800. Because Ernesto bought substantially identical stock, he cannot deduct the loss of $250 on the sale; however, Ernesto adds the disallowed loss of $250 to the cost of the new stock ($800) to obtain the basis in the new stock, which is $1,050.
What is a Capital Loss Carryover?

Net capital losses (total capital losses minus total capital gains) can only be deducted up to a maximum of $3,000 in a tax year ($1,500 if married filing separately). Unused losses are carried over into future tax years as a capital-loss carryover on lines 6 or 14 of Schedule D.

Tip: If the taxpayer is carrying forward a loss, remind the taxpayer to bring a copy of the current year’s return to assist in preparing next year’s return. Make a note on the outside of the taxpayer’s tax return envelope to alert next year’s preparer.

Sale of Personal Residence

If a taxpayer sold their personal residence during the year, they may have to report the gain as income. Loss on the sale of a residence is not deductible but still must be reported on the tax return if the taxpayer receives Form 1099-S. In order to report the capital gain the taxpayer would need to know the sale price of their home, amount realized (selling price minus the selling expenses) and the basis or adjusted basis of their home. If a taxpayer receives Form 1099-S, Proceeds from Real Estate Transactions, use it to figure the selling price. For taxpayers who did not receive a Form 1099-S, use closing statement and other records.

The basis in a home is the cost of either purchasing or building the home. The basis may be adjusted for any additions or improvements to the home. Decreases to the basis of the home could include deductible casualty losses and gains or if the taxpayer used their personal residence for business purposes. If taxpayers have decreases to their basis they should seek assistance from a paid professional. This information should be reported on Form 8949, Sales and Other Dispositions of Capital Assets, and Schedule D.

Capital Gain or Loss of Foreclosed/Abandoned Property

If the lender canceled the debt on a foreclosed house for nonpayment, a capital gain or loss may result. The taxpayer will generally receive Form 1099-A, Acquisition or Abandonment of Secured Property (shown below). Form 1099-A reports the outstanding debt and fair market value of the property. Report the gain or loss from Form 1099-A on Form 8949 and Schedule D. The sale price (amount realized) is based on whether the taxpayer is personally liable (recourse loan) or not personally liable (nonrecourse loan) for the debt.
• If the taxpayer is personally liable, the sale price is the lesser of the balance of the principal mortgage debt outstanding or the fair market value.
• If the taxpayer is not personally liable, then the sale price is the full amount of the outstanding debt, as reflected on Form 1099-A.
• For both recourse and nonrecourse loans, add any proceeds the taxpayer received from the foreclosure sale to the amount realized.

If a personal residence is foreclosed upon and the debt is canceled in the same year, the taxpayer may receive Form 1099-C. The required filing information from Form 1099-A will be shown in Form 1099-C. Generally, the gross foreclosure bid price is considered to be the Fair Market Value (FMV). For an abandonment or voluntary conveyance in lieu of foreclosure, the FMV is generally the appraised value of the property.

**Exclusion of Gain**

If taxpayer(s) do have a gain in the sale or foreclosure of their home, they may qualify to exclude up to $250,000 of the gain on the sale of their main home if all of the following are true:
• The taxpayer(s) owned the home for at least 2 years of the last 5 years (ownership test).
• The taxpayer(s) lived in the home as their main home for at least 2 years of the last 5 years (use test).
• During the 2-year period ending on the date of the sale, they did not exclude gain from the sale of another home.
• Married homeowners can exclude up to $500,000 if they file a joint return, either spouse meets the ownership test, both individuals meet the use test, and neither one excluded gain in the two years before the sale of the current home.

If the taxpayer(s) qualify for the exclusion, only report the sale if there is a taxable portion of the gain that cannot be excluded or if the taxpayer receives Form 1099-S.

**Summary**
• A capital gain/loss results from selling or trading of a capital asset.
• To calculate the gain or loss you will need to know: basis (cost), proceeds (sales price), date of purchase, and date of sale.
• Unused capital losses over $3,000 are carried forward to the next tax year.
• Taxpayers who sold their home during the year may have to report this as a capital gain.
  • They may be able to exclude a portion of the gain if they meet all of the requirements for exclusion.
Out of Scope for VITA
- Other Gains and Losses—These include gains and losses from sales of business property, which would require Form 4797, Sales of Business Property.

PRACTICE EXERCISE

Use Publication 4012, Tab D and Chapter 7 of this volunteer guide to answer the following questions. Check your answers using the Answer Key in Section VI of this guide. Practice tax returns are also available – contact Tax Help Colorado staff.

1. Carley inherited 50 shares of EFG stock from her late grandfather in March of 2019. She sold the stock in July of that same year. True or false, the holding period is considered short term?
   a. True
   b. False

2. Paul bought stock for $2,000 and sold the same stock for $2,300. Not included in the sale was the $35 commission fee he paid his broker. What is Paul’s gain/loss reported on his tax return?
   a. Gain of $300
   b. Loss of $300
   c. Gain of $265
   d. Loss of $265

3. Which of the following is not a condition to exclude the gain from the sale of a taxpayer’s home:
   a. Taxpayer owned the home for at least two years.
   b. Taxpayer’s gain cannot exceed $100,000.
   c. During the two-year period ending on the date of sale, the taxpayer did not exclude gain from the sale of another home.
   d. Taxpayer used the home as their main home during at least two of the last five years before the date of sale.
Learning Objectives

• What are Retirement Distributions?
• Reporting Retirement Income & Form 1099-R
• Disability Pensions & Rollovers
• Taxable Amount Not Determined

What are Retirement Distributions?

During the year, taxpayers may receive distributions from a retirement plan. In most cases, these distributions count as income in the year they are taken. There are many types of qualified retirement plans from which a taxpayer may have received a distribution:

Traditional Individual Retirement Account (IRA) is a personal savings plan with tax advantages for setting aside money. In general, distributions from an IRA are fully taxable in the year they are taken out.

Retirement Annuity is a series of payments made at regular intervals from an insurance company, a trust, a company or an individual. The taxable amount of distributions can vary.

Pensions are payments made by an employer to an employee or beneficiary after retirement. The taxable amount of distributions can vary.

Roth Retirement Accounts are retirement plans where the individual already paid taxes on their contributions to this type of account. Since they already paid taxes on this money, distributions from this type of plan are not taxable as long as the individual meets certain qualifications.

Reporting Retirement Income

Distributions from retirement accounts listed above will be reported on Form 1099-R—Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., or on a similar statement.

Resources

Publication 4012 (Tab D, D32-D42)
Examples of box 7 distribution codes (full list of codes in Publication 4012, Tab D “Form 1099-R Box 7 Distribution Codes”):

1 = Early distribution <59 ½, no known exception
   • It is important to ask if taxpayer rolled over the funds or if they qualify for an exception.
2 = Early distribution <59 ½ exception applies
   • If IRA/SEP/SIMPLE box is checked, additional reporting may be required on Form 8606 and the return is out of scope.
3 = Person on disability under retirement age set by the employer
   • If the taxpayer is on disability and under retirement age, check the box stating, “Check here to report on Form 1040, Line 1 (Distribution code must be a ‘3’).”
4 = Death distribution
7 = Normal distribution
B = Roth account distribution
   • This code is in scope only if taxable amount is determined
G = Rollover

Disability Pensions & Rollovers

Disability Pension is when a taxpayer receives payments due to his or her retiring because of a disability and is under the minimum retirement age. If a taxpayer retires on disability prior to reaching the minimum retirement age set by the employer, the taxable disability payments must be included as wages on Line 1 of Form 1040 (wages, salaries, tips, etc.) until the minimum retirement age is reached. The day after the taxpayer reaches minimum retirement age, payments are treated as a retirement pension or annuity and reported on the pension line. If the taxpayer is permanently and totally disabled at the time of retirement, they may be eligible for special tax credits.

Rollover Distributions are when a taxpayer moves or “rolls over” funds from one qualified retirement plan into a different qualified retirement plan. The amount rolled over is not taxed as income until it is received in a distribution from the recipient plan or IRA without rolling over that distribution.

If the distribution was a direct rollover by the institution to another institution, it will show distribution Code G. If the taxpayer indicates that a rollover occurred, but the distribution Code is not G, then the taxpayer must have re-deposited the full amount into an appropriate account within 60 days.
**Basic Certification** allows volunteers to prepare returns with retirement income if the taxable amount has already been determined (shown in Box 2a of Form 1099-R). If box 2a is blank or the box 2b “Taxable amount not determined” is checked, then the volunteer may have to calculate the taxable amount. In this case, only volunteers with the Advanced Certification may prepare the return. Volunteers interested in taking the Advanced Certification exam may find more information at the end of this chapter.

**Summary**
- Retirement income is reported on Form 1099-R.
- Retirement distributions can be partially, entirely, or not at all taxable.
- Disability Pensions count as Other Income on the tax return and Rollover distributions are not taxable if they were rolled over into another qualified account.
- 1099-R forms without a taxable amount in Box 2a may require Advanced Certification.

**Out of Scope for VITA**
*This is not a complete list. Refer to Publication 4012, Tab D for other situations that are out of scope for VITA.*
- 1099-R Box 7 Distribution Codes J, T & B (if taxable amount has not been determined)
- General Rule for determining taxable distributions

**PRACTICE EXERCISE**

Use Publication 4012, Tab D and Chapter 8 of this volunteer guide to answer the following questions. Check your answers using the Answer Key in Section VI of this guide. Practice tax returns are also available – contact Tax Help Colorado staff.

1. Ronald has a 1099-R with code 1 in box 7. He says he rolled over all of the funds into a qualified account within 60 days of the distribution. How do you enter this on TaxSlayer?
   a. Change the box 7 code to “G” in the software
   b. Enter code 1 in box 7 of the software, check the box under “Rollover or Disability” and enter the rollover amount
   c. Don’t enter the form into TaxSlayer since the rollover isn’t taxable

2. Clara has a 1099-R with code 5 in box 7. How do you enter this on TaxSlayer?
   a. You don’t, code 5 is out of scope and the return cannot be completed at the site
   b. Enter the form as usual, no extra action is required

3. Valerie has a 1099-R with code 1 in box 7. She tells you it is not a rollover and she does not qualify for an exception. How does this affect the return?
   a. This is out of scope, Valerie will need to go to a paid preparer
   b. This doesn’t affect the return in any way
   c. Without an exception, the distribution is taxed an additional 10%

**For Advanced Certification**
If the taxable amount is not specified on the 1099-R, and the code in box 7 indicates the distribution is partially taxable, there are two methods used to figure the taxable amount of the distribution, the General Rule and the Simplified Method. Unless an exception applies, retirees must use the Simplified Method for annuity payments from a qualified plan. If the taxpayer’s annuity starting date is before July 2, 1986, the General Rule must be used. *If the General Rule must be used to figure the taxable portion of pensions and/or annuities, the return is out of scope for VITA sites.*

**Using the Simplified Method**—If there is an amount in Box 5, employee contributions, and no taxable amount is given in Box 2, the taxable amount can be determined by using the Simplified Method. To figure out the portion of the pension or annuity that is taxable, you will need to know the cost in the plan (total employee contributions box 5 from Form 1099-R), the taxpayer’s age on the date the annuity began (and the spouse’s age if joint/survivor annuity is selected), and the amount recovered from previous
years (available from the taxpayer’s prior year worksheet). See Publication 4012, page D-36 for complete instructions.

**Form 1099-R, Box 2A**—If Box 2A is empty, this does not always mean that the taxable amount is automatically $0. It may mean that the taxable amount could not be determined. Use the distribution codes and Publication 4012 pages D-39 and D-40 to determine if the Simplified Method must be applied to determine the taxable amount.

Misreporting the taxable portion of 1099-R income will result in an incorrect return being filed, which may lead to additional taxes, fees and penalties for the taxpayer.

**Form RRB 1099-R, Annuities or Pensions by the Railroad Retirement Board (the green form)**—Entered like a regular 1099-R, this form can only be entered by Advanced Certified volunteers because the taxable amount must be determined.
CHAPTER 9
Social Security, Unemployment & Other Income

Learning Objectives
• Remaining Income
• Reporting Unemployment Income
• Reporting Social Security Income
• Other Income

Resources
Publication 4012
(Tab D, Pages D43-D51)

● Remaining Income

This chapter discusses how to report the remaining forms of income that can be filed at a Tax Help Colorado site.

● Reporting Unemployment Income

Unemployment Compensation is fully taxable and reported on Form 1099-G, Certain Government Payments, box 1. Be sure to check for Federal and State income tax withheld. Unemployment compensation is reported on Form 1040 Line 7a. Note: Unemployment compensation is different than state and local refunds, also reported on Form 1099-G. State and local income tax is reported in box 2.

![Sample Form 1099-G](image)

● Reporting Social Security Income

Social Security benefits are reported on Form SSA-1099, Social Security Benefit Statement. Social security benefits include monthly retirement, survivor, and disability benefits. They will not include any Supplemental Security Income (SSI) payments, which are not taxable.

Sometimes a portion of Social Security benefits are taxable (generally up to 50% but can be up to 80%) based on the taxpayer’s other forms of income.

Tip: Sometimes Tax Help Colorado sites have clients whose only source of income is from social security. Generally, there is not a filing requirement in this situation. It is important for the SCREENER to let the client know if this is the case so they do not wait to have a return prepared when it is not required. The client may be eligible for the Colorado Heat/Rent Rebate (see Chapter 18 – Colorado State Returns).
Volunteers should enter the income as it is shown on Form SSA-1099. TaxSlayer will then calculate the taxable amount based on all the income information within the return.

To determine if a taxpayer with Social Security benefits has a filing requirement: Calculate ½ of the social security benefits and add to the individual’s taxable pensions, wages, interest, dividends, other taxable income, tax-exempt interest and any exclusions from income; if the amount does not exceed $25,000 for an individual filing single, head of household, qualifying widow(er) or married filing separate (if they lived apart from their spouse for the entire year), none of the benefits are taxable. The amount is $32,000 if they are married filing jointly and $0 if they are married filing separately and lived with their spouse at any time during the tax year.

**Sample Form SSA-1099**

**TaxSlayer Entry**
To report social security benefits in TaxSlayer, select IRA/Pension Distribution under Income and select Social Security Benefits/RRB-1099. Make sure to include any Medicare premiums deducted from the benefits, as those amounts may count towards the taxpayer’s itemized deductions.

**Railroad Retirement Board Benefits**—These benefits are reported to an individual on Form RRB-1099 (the blue form). Treat the benefits reported on this form just like the information reported on SSA-1099.

**Sample Form RRB-1099**

**TaxSlayer Entry**
RRB-1099 information is entered in TaxSlayer, just as you would any Social Security benefits. Enter the amount of net benefits from Box 5 on the line “Taxpayer’s Social Security Benefit” including any amounts paid for Medicare from Box 11 for potential itemized deductions. Include any amounts for federal income tax withholding from Box 10. TaxSlayer will perform all the calculations to determine the taxable amount, if any.
Other Income

Schedule 1, Line 8—This line reports taxable income not found on Lines 1-6 of the 1040 and Lines 1-7 of Schedule 1. This income can come from a variety of sources. Some of the most common sources are described in the next few pages.

Prizes and Awards—Another example of “other income” that would be reported on Line 21 of Schedule 1 are prizes and awards. Taxpayers will receive a 1099-Misc and their award amount will be reported in Box 3. The education award AmeriCorps members receive and winners of contests are examples of income reported in Box 3 of Form 1099-Misc. Note that this “award” is different than non-employee compensation reported in Box 7 on a 1099-Misc which must be reported on Schedule C-EZ.

Example: At the completion of his service in AmeriCorps, Sasha received an education award for future education expenses or towards his student loans. When he uses this award, he will be mailed a 1099-Misc with the amount of the award used in Box 3. This amount should be recorded directly on line 8 of Schedule 1.

Gambling Winnings—Both cash and noncash gambling winnings are fully taxable. Cash winnings include lottery payouts, bingo, slot machines, poker and more. Noncash gambling winnings could include vacations or cars. Taxpayers with over $600 in gambling winnings will be issued Form W-2G, Certain Gambling Winnings. The amount of gross winnings and any taxes withheld will be shown. Taxpayers are responsible for self-reporting gambling winnings received during the year not reported on Form W-2G.

Tip: If a taxpayer has winnings from gambling, but also has losses, they sometimes incorrectly assume that the losses are subtracted from the winnings before they are entered as “other income.” Gambling losses are only an “itemized deduction” and can only offset winnings if a taxpayer is itemizing deductions on the Schedule A. Gambling losses can only be deducted up to the amount of gambling winnings. See Chapter 10 for more information on deductions.

TaxSlayer Entry
To enter gambling winnings reported on Form W-2G, enter directly on form. For gambling winnings not reported on Form W-2G, enter under, “Other Income Not Reported Elsewhere.”
Taxable Portions of “Section 529 and 530 plans” distributions—Qualified Tuition Programs (QTPs), also known as “Section 529 plans”, and Coverdell Educational Savings Accounts (ESAs), also known as “Section 530 plans”, are tax-advantaged investment accounts designed to encourage saving for education expenses.

Taxpayers will receive Form 1099-Q when receiving distributions from these savings plans (shown below). The only situation in which distributions from a Section 529 or 530 plans are taxable is when any part of the distribution was used for something other than qualified education expenses. Note, the IRS defines qualified education expenses differently for these types of plans. See Publication 970 for additional information. Any amount not used for qualified education expenses must be entered on Line 8. See Publication 4012, page J-2 for more information on qualified education expenses.

Tip: Any governmental benefit payments based upon need are excluded as taxable income. Examples of nontaxable benefits include: payments for food nutrition program for the elderly; food stamps (SNAP); payments due to blindness; payments for the victims of crime; and payments to reduce the cost of winter energy (LEAP).

Summary

- Unemployment compensation is fully taxable, be sure to check for tax withheld
- Social Security income is sometimes taxable, TaxSlayer will calculate the taxable amount.
- RRB-1099 (blue form) is entered like social security income
- Income in box 3 of Form 1099-MISC is considered “other income”
- Needs based government benefits are not taxable and should not be entered on the return
- Distributions on Form 1099-Q are not taxable if they were used for qualified education expenses. Any amount not used for this purpose should be entered into TaxSlayer as “other income”

Out of Scope for VITA

This is not a complete list. Refer to Publication 4012, Tab D for other situations that are out of scope for VITA.
- Farm Income (Schedule F)
- Rental Income (Schedule E)

PRACTICE EXERCISE

Use Publication 4012 and Chapter 8 of this volunteer guide to answer the following questions. Check your answers using the Answer Key in Section VI of this guide. Practice tax returns are also available – contact Tax Help Colorado staff.

1. Thomas has a W2-G showing gambling winnings from his weekend at a casino. He won $400 and tells you he had losses of $300. How should this be reported on his tax return?
a. Subtract the losses from winnings and enter the difference as gambling winnings
b. Enter the $400 as winnings, and $300 of losses as a deduction on his Schedule A
c. This does not need to be reported on the return

2. Greta won prize money and received a 1099-MISC showing the amount in Box 3. How should this be reported on TaxSlayer?
   a. Enter income on 1099-MISC, box 3, do not create Schedule C
   b. Enter 1099-Misc and create Schedule C
   c. This does not need to be reported on the return

3. Richard is single and 67 years old. His only income for the year is Social Security. His SSA-1099 shows $11,000 in box 5, and $500 as tax withheld in box 6. Is Richard required to file?
   a. Yes
   b. No
   c. No, but he should file

For Advanced Certification
Rental real estate, royalties, partnerships, S corporations, trusts, etc. (Schedule E)—An entry on Line 5 of Schedule 1 (Carried from Schedule E) is only within the scope of VITA sites if it is royalty income reported on Schedule K-1 or Box 2 of Form 1099-Misc, with no associated expenses. Royalty income is generally of two types; royalties for the use of copyrights, trademarks, and patents, or royalties from the extraction of oil, gas or minerals. All other types of income reported on this line are out of scope for most VITA sites.

Schedule K-1 income can only be entered at a Tax Help Colorado site if it is one of the following:
   • Interest income
   • Dividend income and qualified dividend income
   • Royalty income
   • Net long-term capital gains and losses
   • Tax-exempt interest income

Pages D-47 and D-48 of Publication 4012 provide more information on what is considered out of scope.
Cancellation of Debt (COD)
Debt occurs when a borrower has an obligation to pay another entity for a loan, whether or not property was attached to the loan (for example: a home mortgage). Cancellation of debt happens when the entity cancels the loan obligation for the borrower.

Nonbusiness Credit Card Debt Cancellation—Other than a home foreclosure discussed in Chapter 7, the only other form of canceled debt that is within scope for a VITA site is nonbusiness credit card debt. The amount of canceled credit card debt reported on Form 1099-C will be reported on Schedule 1, Line 8, other income and no other supporting documents are required. This only applies if the taxpayer was solvent immediately prior to the cancellation of the credit card debt. Solvency is defined as the amount of taxpayer’s assets that exceed a taxpayer’s debt. For the purposes of determining solvency, assets include all assets owned by a taxpayer whether or not they are used as collateral to secure a debt.

If the taxpayer is considered insolvent (debt exceeds assets) immediately prior to the cancellation of the nonbusiness credit card debt, the canceled debt is out of scope for VITA sites and the taxpayer must be referred to a paid preparer.

Any other cancellation of debt (student or auto loans) is out of scope for VITA sites and must be referred to a paid preparer.

TaxSlayer Entry
If Form 1099-C is issued for nonbusiness credit card debt and is considered solvent (assets greater than liabilities) enter the amount from Box 2 on Cancellation of Debt entry under Other Income in TaxSlayer. The amount will automatically transfer to Line 8 on Schedule 1. If the taxpayer is considered insolvent, the return is out of scope for VITA sites and the taxpayer must be referred to a paid preparer.

Use the Insolvency Determination Worksheet in Publication 4012, page D-60 to help determine if the taxpayer is solvent or insolvent immediately prior to the cancellation of debt.

Sample Form 1099-C

<table>
<thead>
<tr>
<th>CREDITOR’S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.</th>
<th>CARD COMPANY</th>
<th>789 VISA LANE</th>
<th>AUSTIN, TEXAS 73301</th>
</tr>
</thead>
<tbody>
<tr>
<td>CREDITOR’S TIN</td>
<td>72-8XXXXX</td>
<td>DEBTOR’S TIN</td>
<td>251-XX-XXXX</td>
</tr>
<tr>
<td>DEBTOR’S name</td>
<td>TIMOTHY STERLING</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Street address (including apt. no.)</td>
<td>919 N DARRON AVENUE</td>
<td>City or town, state or province, country, and ZIP or foreign postal code</td>
<td>FORT MORGAN, CO 80705</td>
</tr>
<tr>
<td>Account number (see instructions)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Form 1099-C (keep for your records) | www.irs.gov/Form1099C | Department of the Treasury - Internal Revenue Service
CHAPTER 10

Adjustments to Income

Learning Objectives
• What are Adjustments?
• Reporting Adjustments
• Health Savings Account Certification

What are Adjustments?
Adjustments are certain expenses, payments, contributions and fees that taxpayers can subtract from their total income (reported on Schedule 1, Lines 10-20). Subtracting these adjustments will result in the taxpayer’s Adjusted Gross Income (AGI), which is reported on Form 1040, Line 8b.

Reporting Adjustments
Educator Expenses—An eligible individual can deduct up to $250 of qualified expenses or $500 if both spouses are eligible educators and file a joint return. In the second scenario, neither spouse can deduct more than $250 of qualified expenses. An individual is considered an eligible educator if they teach kindergarten through 12th grade. Other individuals eligible for the adjustment include principals, counselors, instructors, or aides who worked in a school for at least 900 hours during the school year.

Penalty on Early Withdrawal of Savings—if funds from a time deposit (such as a CD – Certificate of Deposit) are withdrawn before the maturity date, a penalty is charged. The amount charged as a penalty will be shown on Form 1099-INT, Box 2 and is used as an adjustment to income. See the sample 1099-INT above.

Example: The early withdrawal penalty of $8.35 in the 1099-INT for Tony and Jennifer Maple will adjust the taxpayer’s income by that amount on Line 17 of the Schedule 1.
Alimony Paid—Alimony is a payment to or for a spouse or former spouse under a divorce or separation instrument. Alimony does not include child support or voluntary payments outside the instrument. In order to include the adjustment on the tax return, the Social Security number of the recipient must be provided. The amount paid can be used as an adjustment to income. Alimony payments made from a divorce executed or revised after December 31, 2018, will no longer be an adjustment to income, in accordance with the Tax Cuts and Jobs Act.

Student Loan Interest Deduction—Up to $2,500 of student loan interest paid is deductible as an adjustment to income. The loan must have been taken out to pay for qualified education expenses of a taxpayer, spouse, or dependent (cannot be a related person that can be claimed on someone else’s return). The student must have been enrolled at least half-time in a program leading to a degree, certificate, or other educational credential. Taxpayers do not qualify for the deduction if their filing status is married filing separately. The amount of student loan interest paid during the tax year will be recorded on Form 1098-E.

Health Savings Account (HSA) Certification

Health Savings Accounts are tax-favored medical savings accounts available to taxpayers. There is a separate certification volunteers must pass in order to prepare returns containing health savings accounts. Refer to the “For Health Savings Account” section at the end of this chapter for more information.

Summary

- Adjustments are subtracted from total income to give the Adjusted Gross Income (AGI).
- Eligible educators can deduct up to $250 each for qualified expenses.
- To adjust alimony paid, the taxpayer will need to report the recipient’s Social Security number.
- Student loan interest paid during the year is deductible up to $2,500. Taxpayers who are married filing separately may not take this adjustment.
- Volunteers must pass the separate HSA certification to prepare returns with health savings accounts.

Out of Scope for VITA

- Schedule 1, Line 11 - Certain business expenses of reservists, performing artists, and fee-basis government officials
- Schedule, 1, Line 13 - Moving Expenses for members of the Armed Forces – In scope for Military certified volunteers only
- Self-employed SEP, SIMPLE, and Qualified Plans
PRACTICE EXERCISE

Use Publication 4012, Tab E and Chapter 10 of this volunteer guide to answer the following questions. Check your answers using the Answer Key in Section VI of this guide. Practice tax returns are also available – contact Tax Help Colorado staff.

1. Claire and Skylar are both middle school teachers and married filing jointly. Claire has $200 of qualified educator expenses, and Skylar has $350. What is the total adjustment for educator expenses entered on the tax return?
   a. $250
   b. $450
   c. $500
   d. $550

2. Barrett is divorced and pays his ex-spouse $300 a month for the entire year. His divorce was executed in 2014 and he has his ex-spouse’s social security number. What is the total adjustment for alimony paid?
   a. $0
   b. $300
   c. $1,800
   d. $3,600

3. Marlene has a 1098-E showing $3,500 of student loan interest paid during the year. She is married but filing separately. How much of an adjustment should be entered for her student loan interest paid?
   a. $0
   b. $2,500
   c. $3,000
   d. $3,500

For Advanced Certification

Deductible Part of Self-employment Tax (Schedule SE)—As you may remember, taxpayers who are self-employed pay a self-employment tax to cover the employer and employee portion of the Medicare and Social Security tax for net earnings of $400 or more. This tax is calculated on Schedule SE. One-half of the self-employment tax calculated on Schedule SE is an adjustment to income. TaxSlayer will automatically add this adjustment once Schedule C or C-EZ is complete.

Example: Andrea had net earnings of $2,300 from her dog-walking business. Her self-employment tax will be $352. Half of this self-employment tax, $176, will be added as an adjustment to her income on Line 14 of Schedule 1.

Self-employed Health Insurance Deduction—A taxpayer who is self-employed and had a net profit for the year may be able to deduct the amount paid for medical and qualified long-term care insurance for themselves, their spouse, and dependents as an adjustment to income. The policy can be either in the name of the business or in the name of the individual with the Schedule C or C-EZ. The amount of the deduction may not exceed the earned income from that trade or business. A taxpayer cannot take this deduction if they were eligible to participate in any subsidized health plan maintained by their employer or their spouse’s employer.

IRA Deductions—Contributions to an Individual Retirement Account (IRA) may be deductible. For tax year 2019, the most that could be contributed to a traditional IRA account was the lesser of $5,500 ($6,500 if age 50 or older) or the taxable compensation for the year. The spousal IRA limit was limited to the smaller of $5,500 ($6,500 if they are 50 or older) or the total compensation included in gross income of both spouses.
less the spouse’s IRA contribution and any contribution for the year to a Roth IRA on behalf of the spouse. Unlike a traditional IRA, contributions made to a Roth IRA are not deductible as an adjustment to income.

The deductible amount a taxpayer can claim for a traditional IRA contribution is dependent upon several factors, including:
1. Filing status
2. Workplace retirement plan coverage
3. Modified gross income

Depending on the taxpayer’s situation, a full deduction, partial deduction or no deduction may be allowed under the tax code. See Tables 17-1 and 17-2 on page 122 of Pub 17 for the limits applicable to 2019 returns.

**For Health Savings Account Certification**

Health Savings Account—In scope for HSA certified volunteers ONLY—A health savings account (HSA) is a tax-favored medical savings account available to taxpayers. High-Deductible Health Plans (HDHP) generally cost less than traditional health care coverage but have a higher annual deductible. HSAs enable taxpayers to pay for current medical expenses and save for future qualified medical expenses on a tax-free basis, as long as the distributions are used for qualified medical expenses.

In order to qualify for an HSA, a taxpayer must:
- Be covered in a High-Deductible Health Plan (HDHP) on the first day of the month
- Not be covered by another health insurance
- Not be enrolled in Medicare
- Not be eligible to be claimed as a dependent on someone else’s tax return

If all of the above apply, the taxpayer must open a tax-exempt trust or custodial account with a qualified HSA trustee. HSAs are owned by individuals, but an employer or any other person may make contributions. In the case of married individuals, each spouse who is an eligible individual who wants to have an HSA must open a separate HSA. Married couples cannot have a joint HSA, even if they are covered by the same HDHP. However, distributions can be used to cover the other spouse. Funds in an HSA may be accumulated over the years or distributed on a tax-free basis to pay for or reimburse qualified medical expenses.
Health Savings Account Contributions—Contributions to an HSA are limited based on HDHP coverage, taxpayer's age, the date the taxpayer became an eligible individual, and the date the taxpayer ceases to be eligible. For 2019 the basic limits are $3,500 if the taxpayer has individual HDHP coverage and $7,000 if the taxpayer has family HDHP coverage and was eligible to contribute to an HSA for the entire year. The limits are increased by $1,000 for a taxpayer who is age 55 or older. The taxpayer, a family member, or the taxpayer's employer can make contributions. An adjustment to income is allowed for all contributions made to the taxpayer's HSA except contributions made by the taxpayer's employer. All contributions cannot exceed the limits mentioned earlier. Any excess contribution will be subject to a 6% excise tax. If the excess contributions are not withdrawn by the due date of tax return, then the tax return is out of scope for VITA sites.

There are limitations placed on HSA contributions. If a taxpayer is not eligible to contribute to an HSA for part of the year, he or she must determine the maximum contribution allowed. The Limitation Worksheet is located at the bottom of Form 8889, page 1.

Health Savings contributions are not required to be distributed in the same year the contributions were made. In addition, HSA distributions are not required annually. A taxpayer can save contributions for a future need.

If contributions are made by a taxpayer's employer, it will be reported on the taxpayer's W-2, Box 12 with Code W. Entering this information into TaxSlayer will generate the Form 8889. All contributions made on the taxpayer’s behalf, whether they are made through the employer, the taxpayer, or a relative, will be reported by the HSA Trustee on a Form 5498-SA.

Health Savings Account Deduction—The taxpayer may have the following documents relating to HSA activity during the tax year:

1. Form 1099-SA – indicating the employee received distributions from an HSA. Distributions not used for qualified medical expenses must be included in the taxpayer’s income.
2. W-2 with a code “W” in box 12 – indicating that the employer made contributions to the HSA. These will be entered into TaxSlayer on the taxpayer’s W-2, but will not be included in the taxpayer’s income as they are not taxable.
3. Form 5498-SA – indicating the employee made contributions to an HSA.

Tip: Often times, the contribution amount in Box 2 of Form 5498-SA, includes employer contributions. Unless taxpayers have proof showing otherwise, preparers should subtract the amount of any employer contributions (shown in Box 12 of their W2 under with Code W) from the amount in Box 2 of Form 5498 to calculate the allowable deduction amount.
Employees can claim tax deductions for contributions he/she makes to their HSA. Contributions made by the employee will be recorded on Form 5498-SA.

**Health Saving Account Distributions**—A distribution from an HSA must be for a qualified unreimbursed medical expense. A qualified medical expense is one that generally would qualify for the medical and dental expenses deduction on Schedule A. Regardless of the self-only or family coverage status of the taxpayer’s HDHP plan, qualified medical expenses include expenses for the taxpayer, taxpayer’s spouse, or other dependents claimed on the tax return.

Distributions from an HSA will be reported on a Form 1099-SA. The taxpayer must retain records showing the amounts of the distributions and proving that the distributions are for qualified medical expenses. Any portion of an HSA distribution that is not used to pay for qualified medical expenses, or that is in excess of qualified medical expenses must be included in income. This amount will be subject to a 20% additional tax. The taxpayer will receive a Form 1099-SA (shown below) from their employer and the information will be recorded on TaxSlayer under adjustments in the deduction section.

**Example:** Chan has a self-only HSA. His employer contributed $1,200 and Chan contributed an additional $600. During the year, Chan used $750 from his HSA to pay for his prescriptions ($500), copays ($200), and chicken noodle soup whenever he wasn’t feeling well ($50). Chan will have an adjustment to his income of $600 for the amount he contributed to his own HSA and have a 20% tax added on the $50 used on non-qualified medical expenses.

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**TaxSlayer Entry**

All contributions and distributions for an HSA are reported on Form 8889, located under adjustments. TaxSlayer will transfer eligible contributions to adjustments on Schedule 1 and will record additional tax on any distributions in excess of qualified medical expenses on line 8 of Schedule 2.
CHAPTER 11

Standard & Itemized Deductions

Learning Objectives
• What are Deductions?
• Details for Standard Deductions
• Qualified Business Income Deduction
• Taxable Income
• Itemized Deductions—Advanced Certification Required

What are Deductions?

Now that we know the Adjusted Gross Income (AGI), we need to find the taxable income by subtracting the standard or itemized deduction which are found on Form 1040, Line 9 and the qualified business income deduction, if applicable, on line 10.

A standard deduction is a fixed dollar amount that reduces the taxable income. The standard deduction is determined by filing status, age, if the taxpayer(s) is blind, and if the taxpayer can claim themselves.

On Page 1 of the Form 1040, under the taxpayer’s (and spouse’s) name there are boxes that must be checked for taxpayers who can be claimed as a dependent, are over the age of 65 and/or for taxpayers considered blind for purposes of the tax return in order to calculate the correct standard deduction.

Itemized deductions reduce the taxable income based on specific expenses a taxpayer had throughout the year.

Details for Standard Deductions

The standard deduction should be used when the total of eligible itemized deductions is less than the standard deduction. The standard deduction for most individuals in 2019 is:
• Single or Married Filing Separately: $12,200
• Married Filing Jointly: $24,400
• Head of Household: $18,350
• Qualifying Widow(er) with Qualifying Child: $24,400

Standard Deduction for Dependents—The standard deduction for an individual who can be claimed as a dependent on another person’s tax return is generally limited to the greater of:
• $1,100, or
• The individual's earned income for the year plus $350 (but not more than the regular standard deduction amount, generally $12,200) However, if the individual is 65 or older or blind, the standard deduction may be higher.

Increases to Standard Deduction—The standard deduction for taxpayers 65 and older or legally blind increases for each box checked by $1,600 if the taxpayer is filing single or head or household, $1,300 for filing married filing jointly, qualifying widow(er) with qualifying child, or $1,300 if married filing separately.

Tip: Under the Tax Cuts and Jobs Act, the standard deduction in 2018 nearly doubled for most individuals. This increase to the standard deduction means it is increasingly more beneficial for taxpayers to take the standard deduction. During the 2019 filing season, only 1% of Tax Help Colorado clients had enough expenses to benefit from itemizing their deductions.
Legally blind for tax purposes—If a taxpayer cannot see better than 20/200 vision in at least one eye with contacts or glasses, or the field of vision is not more than 20 degrees and if they have a certified statement from a registered optometrist or eye doctor, the “Blind” box on Page 1 of Form 1040 should be checked.

Married Filing Separately—If both spouses are choosing the filing status of married filing separately and one spouse itemizes deductions on their tax return, the other spouse must itemize deductions on their return even if the standard deduction gives them the better benefit.

Qualified Business Income Deduction

Beginning in tax year 2018, individual taxpayers may be entitled to a deduction of up to 20% of their qualified business income (QBI) from a trade or business, including income from a pass-through entity, but not from a C corporation. The deduction is subject to multiple limitations. For more information on these limitations and how to calculate the QBID, see Chapter 12 of Pub 535, pages 49-57. Note that TaxSlayer will calculate the QBID for you. The 20% deduction will be applied to the net business earnings, less the deduction for self-employment health insurance deduction and deductible part of self-employment tax. This amount is reported on Form 1040, Line 10.

Taxable Income

The total of itemized deductions or the standard deduction is subtracted from the taxpayer’s AGI (as well as the taxpayer’s QBID if applicable). This subtraction results in the taxpayer’s taxable income which is recorded on Line 11b of Form 1040. TaxSlayer will calculate the appropriate tax based on taxable income and record it on Form 1040, Line 12a. There are additional taxes that may be added, depending on the taxpayer’s unique situation. These additional taxes are covered in Chapter 13 and 16 of this guide.

Itemized Deductions—Advanced Certification Required

Volunteers who wish to prepare returns containing itemized deductions will be required to pass the Advanced Certification test. More information on itemized deductions is located at the end of this chapter.

Summary

• Taxpayers can take either the standard deduction or itemized deductions. These reduce the taxpayer’s taxable income.
• Standard deductions are determined based on filing status, age, if the taxpayer(s) is blind and if they can be claimed as a dependent.
• In most cases, TaxSlayer will determine the correct standard deduction based on information entered on the basic information page.

PRACTICE RETURN

The following practice tax return will be covered during the first in-person tax training. You are not required to complete it before your first training, but are welcome to work on it if you desire. This return includes content from all prior chapters featuring basic certification information. Use Publication 4012, Tabs A-F to prepare this return using the TaxSlayer software. For volunteers interested in obtaining advanced certification, there will be additional forms to be added to this return at the end of this chapter. Check your answers using the Answer Key in Section VI of this guide.

Interview Notes

• Lana and Craig are married. They provide all of the support for their grandson Kyle, who lives with them the whole year.
Lana is a grade school teacher and has $200 of educator expenses. Craig is retired and receives social security and retirement income.

Lana took part in a medical study and received a 1099-MISC showing her compensation.

Craig has a W-2G showing his gambling winnings from a casino. He reports he had $100 in gambling losses.

Craig also says he won $50 in scratch off tickets but he doesn’t have a form reporting this.

Lana was unemployed for 3 months and received unemployment compensation during this time.
Check appropriate box for each question in this section

Yes No Unsure Part III – Income – Last Year, Did You (or Your Spouse) Receive

1. (B) Wages or Salary? (Form W-2)  If yes, how many jobs did you have last year? 

2. (A) Tip income?

3. (B) Scholarships? (Forms W-2, 1099-T)

4. (B) Interest/Dividends from checking/savings accounts, bonds, CD's, brokerage? (Forms 1099-INT, 1099-DIV)

5. (B) Refund of state/local income taxes? (Form 1096-G)

6. (B) Alimony income or separate maintenance payments?

7. (A) Self-Employment Income? (Form 1099-MISC, cash)

8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?

9. (A) Income (or less from the sale of stocks, Bonds or Real Estate? (Including your home) (Forms 1099-S, 1099-B)

10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms (1099-R, W-2)

11. (B) Retirement income or payments from Pensions, Annuities, and IRA's? (Form 1099-R)

12. (B) Unemployment Compensation? (Form 1099-G)

13. (B) Social Security or Railroad Retirement benefits? (Forms SSA-1099, RRB-1099)

14. (M) Income (or less from Rental Property?

15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, royalties, foreign income, etc.) Specify Gambling, Medical Study

Yes No Unsure Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay

1. (B) Alimony or separate maintenance payments? If yes, do you have the recipient's SSN?  Yes  No

2. Contributions to a retirement account?  IRA (A) 401K (B) Roth IRA (G) Other

3. (B) College or post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)

4. (A) Any of the following?  Medical & Dental (including insurance premiums)  Mortgage Interest (Form 1098)

Taxes (State, Real Estate, Personal Property, Sales)  Charitable Contributions

5. (B) Child or dependent care expenses such as day care?

6. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.

7. (A) Expenses related to self-employment income or any other income you received?

8. (B) Student loan interest? (Form 1098-E)

Yes No Unsure Part V – Life Events – Last Year, Did You (or Your Spouse)

1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)

2. (A) Have credit card or mortgage debt cancelled/forgiven by a lender or have a home foreclosure? (Forms 1099-C, 1099-A)

3. (A) Adopt a child?

4. (B) Have Earned Income Credit, Child Tax Credit or American Opportunity Credit disallowed in a prior year? If yes, for which tax year?

5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)

6. (A) Receive the First Time Homebuyers Credit in 2009?

7. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much?

8. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?

9. (A) Have health coverage through the Marketplace (Exchange)? [Provide Form 1095-A]

Form W-2 Wage and Tax Statement 2019

Catalog Number S2121E  www.irs.gov  Form 13614-C (Rev. 10-2019)
### Dividends and Distributions

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total ordinary dividends</td>
<td>107.83</td>
<td></td>
</tr>
<tr>
<td>Qualified dividends</td>
<td>107.83</td>
<td></td>
</tr>
<tr>
<td>Total capital gain distr.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section 1222 gain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collectibles (28%) gain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal income tax withheld</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section 199A dividends</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign country or U.S. possession</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash liquidation dividends</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noncash liquidation dividends</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exempt-interest dividends</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specified private activity bond interest dividends</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Form 1099-DIV

www.irs.gov/Form1099DIV

Department of the Treasury - Internal Revenue Service

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### Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross distribution</td>
<td>18,000</td>
<td></td>
</tr>
<tr>
<td>Taxable amount</td>
<td>18,000</td>
<td></td>
</tr>
<tr>
<td>Federal income tax withheld</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee contributions: Designated Roth contributions or insurance premiums</td>
<td>$200</td>
<td></td>
</tr>
<tr>
<td>Net unrealized appreciation in employer’s securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Your percentage of total distribution</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Total employee contributions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Form 1099-R

www.irs.gov/Form1099R

Department of the Treasury - Internal Revenue Service
Form 1099-MISC

Health Studies Inc
33 Hive Boulevard
Denver, CO 80202

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

RECIPIENT'S name
Lana Vidalia
100 Broad Street
Lakewood, CO 80214

FATCA filing requirement

Account number (see instructions)

15a Section 409A deferrals
$ 0.00

15b Section 409A income

16 State tax withheld
$ 0.00

17 State/Payer's state no.

18 State income

Federal income tax withheld
$ 500.00

Medical and healthcare payments

Copy 1 For State Tax Department

Department of the Treasury - Internal Revenue Service

Form SSA-1099 - SOCIAL SECURITY BENEFIT STATEMENT

2019 PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. SEE THE REVERSE FOR MORE INFORMATION.

Box 1. Name
Craig Vidalia

Box 2. Beneficiary's Social Security Number
598-00-0000

Box 3. Benefits Paid in 2019
12,000.00

Box 4. Benefits Repaid to SSA in 2019
$ 0.00

Box 5. Net Benefits for 2019 (Box 3 minus Box 4)
12,000.00

DESCRIPTION OF AMOUNT IN BOX 3

PAID BY CHECK OR DIRECT DEPOSIT:
$12,000.00

MEDICARE PART B PREMIUMS DEDUCTED FROM YOUR BENEFITS:
$1,198.00

DESCRIPTION OF AMOUNT IN BOX 4

Box 6. Voluntary Federal Income Tax Withheld

Box 7. Address
Craig Vidalia
100 Broad Street
Lakewood, CO 80214

Box 8. Claim Number (Use this number if you need to contact SSA.)
### Certain Government Payments

**Form 1099-G**

**PAYER'S name**: Colorado Dept of Labor & Employment  
**PAYER'S TIN**: 20-9887665

**RECIPIENT'S name**: Lana Vidalia  
**RECIPIENT'S TIN**: 599-00-0000

**Address**:  
**City**: Lakewood, CO 80214

**Amounts**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Unemployment compensation</td>
<td>$1,200.00</td>
</tr>
<tr>
<td>2. State or local income tax refunds, credits, or offsets</td>
<td>$</td>
</tr>
<tr>
<td>3. Box 2 amount is for tax year</td>
<td></td>
</tr>
<tr>
<td>4. Federal income tax withheld</td>
<td>$120.00</td>
</tr>
<tr>
<td>5. RTAA payments</td>
<td>$</td>
</tr>
<tr>
<td>6. Taxable grants</td>
<td>$</td>
</tr>
<tr>
<td>7. Agriculture payments</td>
<td>$</td>
</tr>
<tr>
<td>8. Check if box 2 is trade or business income</td>
<td>$</td>
</tr>
<tr>
<td>9. Market gain</td>
<td>$</td>
</tr>
</tbody>
</table>

**State and Local Income Tax Paid**

- **State**: $10a
- **Local**: $10b

**State identification no.**: 11

**State income tax withheld**: $11

---

### Certain Gambling Winnings

**Form W-2G**

**PAYER'S name**: Moon Rise Casino  
**PAYER'S TIN**: 20-7999999

**WINNER'S name**: Craig Vidalia  
**WINNER'S TIN**: 598-00-0000

**Address**:  
**City**: Lakewood, CO 80214

**Amounts**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reportable winnings</td>
<td>$500.00</td>
</tr>
<tr>
<td>2. Date won</td>
<td>1/12/2019</td>
</tr>
<tr>
<td>3. Type of wager</td>
<td>Poker</td>
</tr>
<tr>
<td>4. Federal income tax withheld</td>
<td>$0.00</td>
</tr>
<tr>
<td>5. Transaction</td>
<td>Race</td>
</tr>
<tr>
<td>6. Winnings from identical wagers</td>
<td>$</td>
</tr>
<tr>
<td>7. Cashier</td>
<td>$</td>
</tr>
<tr>
<td>8. Win/loser designation number</td>
<td>$</td>
</tr>
<tr>
<td>9. Window</td>
<td>$</td>
</tr>
<tr>
<td>10. Name of locality</td>
<td>$</td>
</tr>
</tbody>
</table>

**State and Local Income Tax Paid**

- **State**: $13
- **Local**: $14

**State winnings**: $14

---

### Student Loan Interest Statement

**Form 1096-E**

**PAYER'S name**: Lender Blender Cohort  
**PAYER'S TIN**: 37-9000000

**RECIPIENT'S name**: Lana Vidalia  
**RECIPIENT'S TIN**: 599-00-0000

**Address**:  
**City**: Lakewood, CO 80214

**Amounts**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Student loan interest received by lender</td>
<td>$600.00</td>
</tr>
</tbody>
</table>

**State and Local Income Tax Paid**

- **State**: $15
- **Local**: $16

**State income tax withheld**: $15

**Local income tax withheld**: $16

---
For Advanced Certification

Itemized Deductions
Itemized deductions are divided into five categories:
• Medical and Dental Expenses
• Taxes Paid
• Interest Paid
• Gifts to Charity
• Casualty and Theft Losses

Medical and Dental Expenses—A taxpayer can only deduct the amount of medical and dental expenses that exceeds 10% of Adjusted Gross Income. Taxpayers can usually deduct medical and dental expenses for themselves, their spouse, and dependents. Common eligible expenses include:
• Medical service fees paid to doctors, dentists, surgeons, specialists, and other medical practitioners
• Medicare Part D premiums
• Oxygen equipment and oxygen
• Prescription medicines and insulin
• Hospital services fees including lab work
• Therapy, nursing services, and surgery
• Dental care
• Medical insurance premiums that are paid for policies that cover medical care
• Transportation for needed medical care. During 2019, the standard mileage rate for medical care was $0.20 per mile

See Publication 4012, page F-5 for more information on allowable medical and dental expenses.

Taxes You Paid—Taxes that a taxpayer can deduct include:
• Income taxes (state and local) OR general sales taxes (state and local)
• Real estate taxes
• Personal property taxes

Beginning in tax year 2018, the aggregate deduction for taxes paid during the year cannot exceed $10,000 ($5,000 for Married Filing Separately).

State and Local Income Taxes—Taxpayers can deduct state and local income taxes that are withheld from their earnings in the year that the taxes are withheld. In addition, the taxpayer can deduct any estimated tax payments made during the year to a state or local government. This figure is usually taken from the state and local withholding boxes on various income documents (W-2, 1099-R, 1099-G, etc.). Remember, if a taxpayer itemizes their deductions, uses state and local income taxes in their deduction, and receives a refund from the state, the taxpayer will need to report the state refund as income the following year.

General Sales Taxes—Instead of electing state and local income taxes as an itemized deduction, a taxpayer can elect to deduct state and local general sales taxes. They can generally use either their actual expenses or use the state and local sales tax tables that can be found in the 1040 Instructions Booklet to calculate their sales tax deduction or use the sales tax calculator on IRS.gov. The higher of the State and Local Income Taxes or the General Sales Taxes will be used as the itemized deduction.

Real Estate Taxes—A taxpayer can deduct as an itemized deduction real estate taxes that are paid to any state or local government for real property and that were levied for the general public welfare. These taxes must be based on the assessed value of the real property and be charged uniformly against all property that is under the jurisdiction of the taxing authority. This can often be found on the Mortgage Interest Statement, Form 1098. If property taxes are not reported on the mortgage interest statement, refer to the taxpayer’s property tax statement. Note that it is important to record the amount of taxes that were paid during the tax year, not an amount reflected on a bill that is due in the next tax year. See the following Real Estate Property Tax Notice on the next page.
**Personal Property Taxes**—A taxpayer can deduct personal property taxes that are paid to a state or local government entity and that are charged on personal property based only on the value of that personal property and charged on a yearly basis, even if the tax is collected more or less than once a year. Personal property taxes are paid on automobiles, trailers, ATVs, and snowmobiles. They are called personal property because they are not attached to land in a permanent way. For example, the ownership tax that a taxpayer pays as part of their annual car registration is a personal property tax. The ownership tax is the only amount that should be recorded, not the entire registration amount.

**Interest You Paid**—Interest is the amount being paid for the use of borrowed money. There are two types of interest that can be used as an itemized deduction. The first is home mortgage interest, which also includes certain points. Home mortgage interest paid during the year is deductible only if it was used to buy, build or substantially improve the taxpayer’s home. Starting after tax year 2017, interest paid on home equity loans used for any other purpose are no longer deductible. Taxpayers can deduct mortgage interest on the first $750,000 ($375,000 if filing separately) of indebtedness if the debt occurred after December 16, 2017. Higher limitations are allowed if the debt occurred before that time. See Publication 17, chapter 24 for more information.

“Points” are a form of prepaid interest to lower mortgage rates and are generally deducted over the life
(term) of the mortgage. However, a taxpayer can fully deduct all of the points in the year they are paid if they meet all of the following tests:

1. The taxpayer’s loan is secured by his or her main home.
2. Paying points is an established business practice in the area where the loan was made.
3. The points paid were not more than the points generally charged in that area.
5. The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement such as appraisal fees or attorney fees.
6. The funds the taxpayer provided at or before closing, plus any points that the seller pays, have to be at least equal to the dollar amount of the points. The funds the taxpayer provides do not have to be applied to the points. They can include a down payment, earnest money, or other funds.
7. The taxpayer uses the loan to buy or build his or her main home.
8. The points were computed as a percentage of the principal amount of the mortgage.
9. The dollar amount paid for points was clearly shown on the settlement statement, Form HUD-1.

The amount of mortgage interest that the taxpayer paid should be found on Form 1098, shown below:

Mortgage Interest and Points Paid information may be reported on alternative statements by the bank or other financial institution rather than on a Form 1098 (above). It is important to check the year in which the payments were made.

Gifts to Charity—Taxpayers can deduct contributions of money or property they make to a qualified organization. A taxpayer who donates property to a qualified organization can generally deduct the fair market value of that property at the time of the donation. Qualified organizations include religious, charitable, educational, scientific, and literary organizations; organizations for the prevention of cruelty to children or animals; war veteran organizations; certain nonprofit cemetery companies and the United States or any state where the contribution is made solely for public purposes. These organizations are referred to as 501(c)3 charities because they are registered with the Internal Revenue Service. Donations to most non 501(c)3 organizations are not deductible.

Tip: To check to see if a donation is tax deductible, look at Table 25-1 on page 177 in Publication 17 or go to IRS.gov and search “exempt organizations.” This will bring you to the “Exempt Organizations Select Check Tool.”
Taxpayers can also deduct the actual cost of gas and oil, or $0.14 per mile, if they drove to and from a location where they volunteered. Parking and tolls for transportation related to volunteer work could also be claimed under either method used. Any amounts that were reimbursed by the volunteer organization cannot be deducted.

Amounts that may not be deducted include:

- Cost of raffle, bingo, or lottery tickets
- Tuition
- Value of person’s time or service
- Blood donated to a blood bank or Red Cross
- Car depreciation, insurance, general repairs or maintenance

For a contribution of cash, check or other monetary gift (regardless of amount), the taxpayer must maintain as a record either a bank statement or a written communication from the qualified organization containing the date and amount of the contribution and the name of the organization. Any non-cash gifts that exceed a fair market value of $500 must be accompanied by Form 8283, which itemizes those contributions. Returns with non-cash contributions over $500 are out of scope for Tax Help Colorado sites, and the taxpayer will need to be referred to a paid preparer.

**Advanced Add-on for Practice Return**

For volunteers interested in becoming certified at the Advanced level, the following information will be added to the basic return you prepared earlier in this chapter. Use Publication 4012 and the information from this chapter to determine which of the following items can be added to the tax return as itemized deductions. After adding all qualified deductions, review the Form 1040 and Schedule A to determine whether the taxpayers benefit more from itemizing their deductions or by taking the standard deduction. Check your answers using the Answer Key in Section VI of this guide.

**Additional Interview Notes**

Craig & Lana Vidalia paid the following:

- $4,000 in qualifying home mortgage interest
- $9,000 for real estate taxes
- Unreimbursed doctor and dentist bills totaling $6,200
- Unreimbursed prescription drugs for $120
- Vitamins for $100
- A statement received from their church showing donations made throughout the year totaling $1,000
- $1,300 for car repair after Craig was in a traffic accident
- Receipts for donations of furniture to ARC thrift store. The total estimated fair market value is $150
- Receipt for purchasing girl scout cookies for $20
- Tax preparation fee of $300 for their 2018 tax return
- $100 for back-to-school clothes for Kyle

Tip: If the taxpayer’s contributions to charity were 20% or less of his or her adjusted gross income, which is most often the case, there is no need to be concerned with the difference between the 50%, 30%, and 20%-limit. If contributions were in excess of 20% of the taxpayer’s adjusted gross income, refer to Publication 526 for information regarding the appropriate placement of charitable donations.
CHAPTER 12

Nonrefundable Credits

Learning Objectives
• What are Nonrefundable and Refundable Credits?
• Nonrefundable Credits
• Adding Up the Credits

What are Nonrefundable and Refundable Credits?

As we learned in the last section, tax deductions reduce the amount of income on which a taxpayer is required to pay tax. In other words, tax deductions lower the taxpayer’s taxable income. Tax credits, however, actually reduce the amount of income tax a taxpayer owes. There are a number of tax credits that are especially beneficial to the taxpayers living on lower to middle incomes that are served by Tax Help Colorado.

There are two types of tax credits: refundable and nonrefundable.

A nonrefundable credit allows taxpayers to lower their tax liability to zero, but not below zero. In this chapter we will learn about nonrefundable credits.

A refundable credit allows taxpayers to lower their tax liability to below zero. When this occurs, the government owes the taxpayer a refund.

Example: After adding up Alicia’s total gross income, subtracting adjustments, deductions and applying her tax rate, Alicia’s federal tax is $450. If Alicia qualified for a nonrefundable credit of $600, she would be able to reduce her tax to $0 but not receive the additional $150 back as a refund. If that credit was refundable, not only would she be able to reduce her tax to $0 but she would be eligible to receive a refund of $150.

Nonrefundable Credits

Child and Dependent Care Credit

A taxpayer may be eligible to claim a credit for expenses paid for the care of a qualifying child under the age of 13, a spouse who is incapable of self-care, or a dependent who is incapable of self-care. The taxpayer must be paying these expenses so that he/she can work, look for work, or attend school. In addition, to be eligible for this credit, the taxpayer (and spouse) must have earned income during the tax year. If the taxpayer or spouse is a full-time student for some part of at least five calendar months, earned income will be implied, enabling them to meet the earned income requirement.

However, if both the taxpayer and the spouse do not work and are either full-time students or physically or mentally not able to care for them, then only one can be treated as having implied earned income.

The credit is a percentage of the taxpayer’s expenses and is calculated based on the taxpayer’s earned income and AGI. This credit is not available if filing Married Filing Separately. Only the custodial parent may claim the child and dependent care credit even if the child’s exemption is being claimed by the non-custodial parent under the rules for divorced & separated parents. This credit is calculated on Form 2441 and reported on Schedule 3, Line 2.
Some taxpayers receive dependent care benefits from their employers, which may also be called “flexible spending accounts” or “reimbursement accounts.” Taxpayers may be able to exclude these benefits from their income. Employer-provided dependent care benefits appear in the taxpayer’s Form W-2, Box 10. All taxpayers who receive employer-provided dependent care benefits are required to complete Form 2441, Part III to determine if they can exclude all or parts of these benefits from their taxable income.

**Education Credits**

There are two possible credits that can be used for taxpayers who have expenses paid toward higher education. They are the American Opportunity Credit and the Lifetime Learning Credit. Due to the complexity of these credits, please refer to Chapter 15: Taxable Scholarships & Education Credits. These credits are reported on Schedule 3, Line 3.

**Retirement Savings Contribution Credit**

A credit may be taken if the taxpayer or spouse made contributions to a traditional or Roth IRA; elective deferrals to a 401(k) or 403(b) plan, or to a governmental 457, SEP, or SIMPLE plan; voluntary employee contributions to a qualified retirement plan; or contributions to a 501(c)(18)(D) plan. The credit is calculated on Form 8880. There are maximum income limits for the allowance of this credit.

**Child Tax Credit (CTC)**

The Child Tax Credit is given for a qualifying child who is a taxpayer’s son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendent of any of them who was under the age of 17 at the end of the tax year, if they did not provide over half of their own support, and if they lived with the taxpayer for more than half of the tax year. The qualifying child must have a Social Security Number issued by the Social Security Administration before the due date of the tax return (including extensions). The maximum amount that can be claimed as a credit is $2,000 for each qualifying child. This amount is reported on Form 1040, Line 13a. Up to $1,400 of the CTC is eligible to be refundable. See Additional Child Tax Credit in Chapter 14 for more information.

**Credit for Other Dependents**

Dependents who can’t be claimed for the CTC may still qualify for the Credit for Other Dependents, sometimes referred to as ODC. The qualifying dependent must be a U.S. citizen, U.S. national, or U.S. resident alien. This is a nonrefundable tax credit of up to $500 per qualifying person. This credit is reported on Form 1040, Line 13a.

The amount actually claimed for both the Child Tax Credit and Credit for Other Dependents depends on the taxpayer’s tax liability and modified adjusted gross income (MAGI). The amount of the credit may be reduced if:

- The amount on Form 1040, Line 12 is less than the total of both credits. If the amount is zero, you cannot take either credit because there is no tax to reduce, or
- The MAGI is over $200,000 ($400,000 for married filing jointly).

**Credit for the Elderly or the Disabled**

The credit, ranging between $3,750 and $7,500, is calculated on Schedule R. In order to qualify for the credit, taxpayers must be:

1. Age 65 or older at the end of the tax year OR
2. Under age 65 at the end of the year and both of the following apply:
Adding Up the Credits

The total nonrefundable credits are summed and recorded on Line 7 of Schedule 3 and carried to Line 13b on Form 1040.

Other Credits Reported on Line 6
A number of other credits are reported on line 6 on Schedule 3. A few examples include the Mortgage Interest Credit (Form 8396), the Qualified Adoption Expenses Credit (Form 8839), General Business Credit (Form 3800), and certain electric vehicle credits (Form 8834). These credits are rarely seen at Tax Help Colorado sites. Returns that include these credits are Out of Scope for VITA sites.

Adding Up the Credits

The total nonrefundable credits are summed and recorded on Line 7 of Schedule 3 and carried to Line 13b on Form 1040.

Summary

• Nonrefundable credits can reduce a taxpayer’s tax owed down to $0 but cannot go below $0.
• The Child Tax Credit (CTC) and Credit for Other Dependents (ODC) will calculate automatically on TaxSlayer as long as the taxpayer and dependent’s basic information has been entered correctly.
• Retirement Savings Contributions may appear on a taxpayer’s Form W-2, but it is important to ask the taxpayer if they made contributions outside of this form to see if they qualify for the credit.

Out of Scope for ViTA

This is not a complete list. Refer to Publication 4012, Scope of Service for other situations that are out of scope for ViTA.

• Returns requiring Form 1116 to report Foreign Tax Credit
• Returns with Mortgage Interest Credit
• Residential Energy Credits
• Electric Vehicle Credit
• Qualified Adoption Expenses Credit
• General Business Expense

PRACTICE EXERCISE

Use Publication 4012, Tab G and Chapter 12 of this volunteer guide to answer the following questions. Check your answers using the Answer Key in Section VI of this guide.

1. Clara is a single parent and provided all the support for her 12-year-old son, Sam, who lived with her all year. Clara earned $55,000 in wages in 2019. Clara and Sam are both U.S. citizens and have valid Social Security numbers. What is the maximum amount of child tax credit that Olivia is able to claim for Sam?
   a. $500  
   b. $1,000  
   c. $1,400  
   d. $2,000

2. George and Lila are married filing jointly. Their son, Jeremy, is 19 years old and a fulltime student at college. George and Lila provide all of Jeremy’s support and they had an AGI of $50,000 in 2019. All three of them are U.S. citizens and have valid Social Security numbers. Which of the following credits can George and Lila claim?
   a. Child and Dependent Care Credit  
   b. Child Tax Credit  
   c. Credit for Other Dependents  
   d. None of the above
3. Shana is a single parent and provides all the support for her 13-year-old daughter Marla, who lives with Shana all year. Shana paid $500 for an after-school program for Marla while she is at work. Shana had earned income of $45,000 in 2019. Based on this information, can Shana claim the Child and Dependent Care Credit for Marla?
   a. Yes
   b. No
CHAPTER 13

Other Taxes

Learning Objectives
• What are Other Taxes?
• Advanced Certification Required
• Self-Employment Tax
• Unreported Social Security & Medicare Tax
• Additional Tax on IRAs and Other Qualified Retirement Plans
• First-Time Homebuyer Repayment
• Other Taxes Not Reported Elsewhere

What are Other Taxes?
After determining the taxpayer’s taxable income by subtracting the standard or itemized deduction, there are additional taxes that may be applied to the return. These “other taxes” are unique to each taxpayer and include things like self-employment tax, social security and Medicare taxes on tip income, additional taxes on IRAs, and repayment of the first-time homebuyer credit. These other taxes are added to the return after nonrefundable credits are calculated. As such, nonrefundable credits do not reduce the “other taxes.”

Advanced Certification Required
Volunteers who wish to prepare returns with “other taxes” will need to pass the Advanced Certification test to do so. Volunteers who are only taking the Basic Certification test will not be tested on the rest of the information in this chapter.

Self-Employment Tax
Net earnings from self-employment that exceed $400 ($108.28 for church employees) are subject to self-employment tax. These are the FICA taxes made up of 12.4% for Social Security taxes (OASDI), subject to limitations, and 2.9% for Medicare. TaxSlayer calculates self-employment tax automatically based on the business income and expenses entered on the return. Self-employment tax is reported on Schedule 2, Line 10.

Unreported Social Security and Medicare Tax
Forms 4137 and 8919 are completed and transferred to this line if additional Social Security and Medicare taxes are owed in special situations. This most often occurs when there is unreported tip income, discussed in Chapter 5 of this guide, under the advanced certification section.

Additional Tax on IRAs and Other Qualified Retirement Plans
The additional tax on early distributions (before age 59-1/2) from an IRA or qualified retirement plan is 10% of the amount of that distribution. In addition, a taxpayer must include that distribution as part of their gross income. Early distributions have a special distribution code reported in Box 7 of Form 1099-R. Early distributions are reported on Form 5329, Additional Taxes on Qualified Plans. Information from Form 5329 is also reported on Schedule 2, Line 6.
There are several situations in which the 10% tax on early retirement distributions does not apply:

**Code 01:** Distribution was received after separation from service with employer or after the year you reach age 55.

**Code 02:** The taxpayer is receiving distributions in the form of an annuity.

**Code 03:** The taxpayer is totally and permanently disabled.

**Code 04:** The taxpayer is the beneficiary of deceased account owner.

**Code 05:** The taxpayer had unreimbursed medical expenses that are more than 10% of his/her adjusted gross income (7.5% if they are over age 65).

**Code 06:** The distributions are made to an alternate payee under a qualified domestic relations order.

**Code 07:** The distributions made to unemployed individuals for health insurance premiums.

**Code 08:** The distributions are not more than the taxpayer’s qualified higher education expenses.

**Code 09:** The taxpayer uses the distributions to buy, build, or rebuild a first home, up to $10,000. (The taxpayer cannot have owned a home for the previous two years)

**Code 10:** The distribution is due to an IRS levy of the qualified plan.

**Code 11:** The distribution is a qualified reservist distribution.

**Code 12:** “Other” including distributions incorrectly indicated as early distributions by code 1, J, or S in box 7 of Form 1099-R. See Form 5329 instructions for additional exceptions.

**Example:** Ruben is 43 and had a distribution of $6,800 from his retirement account. If he used the distribution on basic living expenses, he would pay an additional tax of $680, not to mention any of the income tax calculated with his other income. If he used the distribution to pay for higher education expenses for his daughter to go to college, he would qualify for an exception to this additional tax.

**First-Time Homebuyer Repayment**

The Housing and Economic Recovery Act of 2008 and 2009 established a tax credit for first-time homebuyers that could be worth up to $7,500 in 2008 and $8,000 in 2009 on their income taxes. This credit was extended into 2010, providing the home was purchased or the buyer had a binding contract to buy on or before April 30, 2010, and the sale closed by June 30, 2010. The credit was intended to stimulate the economy after the housing market crash by allowing first-time homebuyers to enter the market. Repayments of the First-Time Homebuyer Credit are mandatory in two situations.

**Repayment of the credit due to disposition or sale**—If the taxpayer claimed the first-time homebuyer credit for a home purchased in 2008 and disposed of or ceased using the home as their primary residence during the current tax year, they must complete form 5405 and may have to repay their remaining credit. See Form 5405 instructions for more information.
Mandatory repayment of credits claimed in 2008—
For homes purchased in 2008, the credit operates like an interest free loan and must be repaid over a 15-year period. Generally, for credits claimed in 2008 the taxpayer must have begun repaying the credit in 2010. The repayment amount per year must be calculated by dividing the total credit claimed by 15. For example, if the taxpayer claimed the full amount of the credit ($7,500 for 2008) divide $7,500 by 15, which gives a yearly repayment amount of $500.

The IRS no longer mails reminder letters to taxpayers who have to repay the First-Time Homebuyer Credit. The First-Time Homebuyer Credit Lookup tool can be found at IRS.gov under the ‘Tools’ menu. You will use this tool if the taxpayer marked “Yes” or “Unsure” on their intake sheet. It is extremely important to check for this credit because the tax return will reject if it is required to include the repayment but it’s not included in the return.

To use the lookup tool, you must enter the taxpayer’s Social Security number, date of birth, and complete address to use the tool. If the credit was claimed on a joint return, each taxpayer must use the lookup tool to determine each person’s share of the repayment.

Other Taxes Not Reported Elsewhere
Taxes not reported elsewhere on the return are reported on Schedule 2 and transferred to Form 1040 Line 15. These other taxes include additional taxes on HSAs and MSAs and the recapture of several credits. Reminder, any distributions from a Health Savings Account not used for qualified medical expenses are subject to an additional tax.

Once all “other taxes” have been added, they are totaled on Schedule 2, Line 10 and transferred to Form 1040, Line 15. These taxes are added to the previously determined taxes from income and result in the taxpayer’s total tax, which is reported on Form 1040, Line 16.

Summary
• Other taxes are not always present on a tax return – they are for taxpayers with unique filing situations
• They are added to the return after nonrefundable credits
• Self-employment tax and additional tax on IRAs is calculated automatically based on the income information entered on the return
• Taxpayers must pay back a portion of their First-Time Homebuyer Credit through their tax return if they disposed of or ceased using the home in the current tax year or they received the credit in 2008

Out of Scope for VITA
This is not a complete list. Refer to Publication 4012, Tab H for other situations that are out of scope for VITA.
• Household employment taxes
• IRA minimum distributions not withdrawn when required and excess IRA contributions not withdrawn by due date of the return including extensions
• Net Tax Liability from Form 965-A
CHAPTER 14

Payments & Refundable Credits

Learning Objectives
• Payments
• Refundable Credits
• Extensions & Excess Social Security Tax Withheld
• Refunds
• Tax Owed

Resources
Publication 4012 (Tabs H & I)

Payments
Employers are required to withhold taxes from amounts paid to employees. Employees (the taxpayer) complete Form W-4 to help determine the appropriate amount of tax to withhold to pay for the calculated federal income tax. In addition, taxpayers could have taxes withheld from other sources of income, like withholdings on retirement distributions (Form 1099-R), social security compensation (SSA-1099), unemployment compensation (Form 1099-G), and gambling winnings (Form W-2 G). Any federal income tax that has been withheld during the year is recorded on Line 17 of Form 1040.

Estimated Tax Payments
Self-employed individuals generally have to make estimated tax payments if they expect to owe tax of $1,000 or more when their return is filed. To calculate and make estimated tax payments, the taxpayer will need to complete Form 1040-ES, Estimated Tax for Individuals. Any estimated tax payments made for the tax year are reported on Schedule 3, Line 8.

Refundable Credits
Earned Income Tax Credit
The Earned Income Tax Credit (EITC or EIC) is one of the most beneficial refundable tax credits for taxpayers living on low income. It is meant to assist hard-working taxpayers by reducing their tax burden and to supplement their wages. For tax year 2019, the maximum amount of earned income credit equals $529 with no qualifying child, $3,526 with one qualifying child, $5,828 with two qualifying children, and $6,557 with three or more qualifying children.
Rules for Claiming the EITC

Rule One—The taxpayer(s) Adjusted Gross Income and Earned Income must be less than a certain amount determined by the IRS each year. To be eligible for the credit in 2019, earned income must be at least $1, but not more than:
- $50,162 ($55,952) for married filing jointly if they have three or more qualifying children, or
- $46,703 ($52,493) for married filing jointly if they have two qualifying children, or
- $41,094 ($46,884) for married filing jointly if they have one qualifying child, or
- $15,570 ($21,370) for married filing jointly if they do not have a qualifying child.

Rule Two—The taxpayer(s) and any qualifying child listed on Schedule EIC must have a valid Social Security number that allows them to work (not an ITIN).

Rule Three—The filing status cannot be Married Filing Separately.

Rule Four—The taxpayer(s) must be a U.S. citizen or a legal resident alien all year. To determine whether or not a taxpayer is a resident alien, one of the following two tests must be applicable:
1. “Green Card Test”—The taxpayer has been given the privileges according to immigration laws to reside permanently in the United States—Immigration Services has issued an alien registration card.
2. “Substantial Presence Test”—the taxpayer must reside in the United States for 31 days in the current tax year and at least 183 days during the 3-year period prior to the filing year. The 183 days must include all of the days present for the current tax year plus 1/3 for the year prior and 1/6 for two years prior.

Rule Five—Form 2555 or Form 2555-EZ cannot be filed for foreign earned income.

Rule Six—Investment income must be $3,600 or less.

Rule Seven—There must be earned income.

Rule Eight—The taxpayer cannot be a qualifying child of another person.

Rules 9 and 10 apply to those who have a qualifying child:

Rule Nine—The child must meet the relationship; age, residency, and joint return tests.
- Relationship Test—A qualifying child must be the taxpayer’s son, daughter, foster child, siblings, half-siblings, step-siblings, or a descendant of any of them.
- Age Test—The child must be under the age of 19 at the end of the tax year or under the age of 24 at the end of the tax year and a full-time student, or any age if permanently and totally disabled at any time during the tax year.
- Residency Test—The child must have lived with the taxpayer in the United States for more than half of the tax year.
- The child cannot file a joint return for the year.

Rule Ten—The qualifying child cannot be used by more than one person to claim the EITC.

Rules 11 – 13 apply to taxpayers without a qualifying child:

Rule Eleven—The taxpayer(s) must be at least age 25 but under age 65.

Tip: For EITC purposes, a qualifying child does not have to be the taxpayer’s dependent (unless the child is married). In the case of divorced or separated parents, the custodial parent (with whom the child lived for more than half the year) can qualify for the EITC regardless of whether or not they claim the dependency exemption for the child. The noncustodial parent cannot qualify for EITC because the child did not live with them for more than half the year.
Rule Twelve—The taxpayer(s) cannot be a dependent of another person.

Rule Thirteen—The taxpayer(s) must have lived in the United States for more than half of the year.

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**TaxSlayer Tip 1:** If the taxpayer’s dependent is over the age of 18 and a full-time student, the preparer must check the box that indicates this status (see above); otherwise, the taxpayer may miss out on the thousands of dollars of the Earned Income Tax Credit.

**TaxSlayer Tip 2:** A custodial parent, meaning the child lived with the parent for more than half the year, can claim the child for the EITC without claiming them as a dependent.

**TaxSlayer Tip 3:** If a taxpayer indicates their dependent lived with them less than half the year, the taxpayer can still claim the child as a dependent, but do not meet the claim for the EITC. They must check the corresponding box (see above).

TaxSlayer will calculate the correct EITC amount based on information entered on the taxpayer and dependent’s basic information page, as well as information from the income section. The EITC is reported on Form 1040, Line 18a.

### Additional Child Tax Credit

The Additional Child Tax Credit (ACTC) is a refundable portion of the Child Tax Credit (Chapter 12). If the Child Tax Credit (CTC) reduces the taxpayer’s tax liability to $0 and there is a remaining amount of CTC, the taxpayer may be eligible for this refundable credit. The refundable portion of the CTC is determined based on the taxpayer’s earned income. The credit is calculated by taking 15% of the taxpayer’s earned income over $2,500, up to $1,400 per child. TaxSlayer will calculate the ACTC based on personal information, dependent information and income entered on the return and will report the credit on Form 1040, Line 18b.

**Tip:** Refunds, including the EITC and/or ACTC, will not be processed prior to February 15. This allows the IRS to verify income reported on those returns since employers are now required to file W-2 forms and 1099s by January 31st. Most refunds are expected to be issued within 21 days of processing, meaning refunds filed before February 15th with these credits most likely will not be issued until the end of February at the earliest. It is important to inform recipients of this delay, so they can plan accordingly.

### Refundable portion of the American Opportunity Tax Credit—

40% of the AOTC (up to $1,000) is refundable and will be calculated on Form 8863. Education credits will be discussed in more detail in Chapter 15 of this guide.
Form 8862, Information to Claim Certain Credits after Disallowance—The EITC, AOTC, CTC, ACTC, ODC may be disallowed from a taxpayer’s previous return due to not meeting the qualifications or misreporting their earned income for the year. Form 8862, Information to Claim Certain Credits After Disallowance, must be completed for any taxpayer whose claim was denied or reduced for any reason other than a math or clerical error. If the IRS determined a taxpayer claimed these credits due to reckless or intentional disregard of the rules, the taxpayer can’t claim these credits for 2 tax years. If the error was due to fraud then the taxpayer can’t claim them for 10 tax years.

Net Premium Tax Credit—See Chapter 16

Extensions and Excess Social Security Tax Withheld

Amount paid with request for extension to file—Taxpayers can get an automatic six-month extension of time to file by submitting Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. This form extends the time to file until October 15 (or the precise date, 6 months after the April filing deadline). This form only permits an extension to file, not an extension to pay. When filing the extension, taxpayers should try to pay as much of their estimated balance before the April 15 deadline. Later, when taxpayers file their return, the amount paid with their extension would be reported on Schedule 3, Line 10.

Excess Social Security Tax Withheld—A taxpayer may have more than one employer and a combined income over the amount for the Social Security wage base. This means the taxpayer may have paid more in Social Security tax than is required. This excess amount is added to Schedule 3, Line 11, to be refunded back to the taxpayer. TaxSlayer will automatically calculate this amount based on the information reported from each W-2.

The sum of other payments and refundable credits from Schedule 3 are added to the other refundable credits on Form 1040, and totaled on Form 1040, Line 19 to give a taxpayer’s total payment amount. This amount is then compared to the amount of total tax from Line 16. If Line 19 (payments) is greater than Line 16 (taxes), the taxpayer will receive a refund. The difference between Line 16 and Line 19 determines if the taxpayer owes taxes or is due a refund.

Refunds

The amount “overpaid” will be refunded to the taxpayer. The refund due can be mailed to the taxpayer, direct deposited into their bank account, or applied to next year’s estimated taxes. If direct deposit is used, the taxpayer will typically receive the refund quicker than when a paper check is requested. To select direct deposit, the taxpayer must have their bank routing number and account number which are entered twice on the e-file page of TaxSlayer.

Form 8888 allows taxpayers to split their refunds between checking and savings accounts. There are several saving incentive programs that offer prizes or rewards for taxpayers who elect to put a portion of their refund into a savings account. In addition, form 8888 allows taxpayers to buy U.S. savings bonds with their federal tax refund. These savings bonds can be purchased for themselves, beneficiaries, or co-owners. Savings bonds can also be purchased for someone other than the taxpayer.

Location of routing and account numbers on a standard check:
Unlike checks, deposit slips do not have the correct routing and account numbers:

If the taxpayer would like to use part of their refund toward estimated taxes for the following tax year, this amount is reported on Form 1040, Line 22.

**Tax Owed**

Any tax owed to the IRS or the state are traditionally due no later than April 15. Interest and penalties are charged on payments after the April due date. There are several payment options available to taxpayers including:

- **Check or money order**—Submit payment by check or money order with Form 1040-V, payment voucher. This voucher will be created by TaxSlayer and printed out with the return. No cash payments will be accepted.
- **Electronic funds withdrawal**—If taxpayers select this option, their bank’s routing and account number will be added to the return with the preferred date and amount taxpayers would like the taxes taken out of their account. It is important to put the exact amount of payment the taxpayer specifies. The date chosen must be at least 24-48 hours after the day the return is prepared. Taxpayers can still select this option after they’ve filed their return, at IRS.gov.
- **Credit cards**—Taxpayers that wish to use credit cards will need to set up the payment on IRS.gov. A convenience fee will be charged by the service providers.
- **PayNearMe**—Taxpayers can now make cash payments without the need of a bank account or credit card at more than 7,000 7-Eleven stores nationwide. Before visiting a 7-Eleven store, taxpayers will need to go to the IRS website to print a payment code.

**Estimated tax penalty**—In most cases, taxpayers must make estimated tax payments if they expect to owe at least $1,000 in tax (after subtracting withholding and credits) and their withholding and credits will be less that the smaller of:
• 90% of the tax shown on the current tax return, or
• 100% of the tax shown on the prior year’s tax return.

An estimated tax penalty may apply if the taxpayer does not make estimated tax payments as required. The penalty is calculated on Form 2210, Underpayment of Estimated Tax.

Summary
• Taxes withheld on income during the year, as well as estimated payments and refundable credits, are compared to the total tax to determine whether the taxpayer owes taxes or receives a refund.
• The Earned Income Tax Credit is hugely beneficial to taxpayers and extra care should be taken to make sure a taxpayer does or doesn’t qualify.
  • One missed check box on the dependent information page can result in a loss of the EITC for a qualifying taxpayer.
• The Additional Child Tax Credit is the refundable portion of the Child Tax Credit and is worth up to $1,400.
• Taxpayers can receive refunds as a check in the mail or direct deposit to a bank account. Direct deposit is the faster and more secure option.
• Taxpayers who owe taxes should pay as much as possible by the April 15th filing deadline. Even if a taxpayer cannot pay the full amount before the deadline, they should not avoid filing their return. The penalty for not filing on time is significantly higher than the penalty for not paying on time.
• Taxpayers who owe taxes may want to adjust their tax withholding on their income. They can use the IRS Tax Withholding Estimator on the IRS website to make changes to their W-4 with their employer.

Out of Scope for VITA
• Credit for federal tax on fuels
• Credit for Undistributed Long-Term Capital Gains and Health Coverage Tax Credit
• Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts

PRACTICE EXERCISE

Use Publication 4012, Tab I and Chapter 14 of this guide to answer the following questions. Check your answers using the Answer Key in Section VI of this guide.

1. Madeline and Jorge are married filing jointly. Madeline has a Social Security number and Jorge is a resident alien with an ITIN. Their son, Wallace is 13 years old, has a Social Security number, and lived with his parents the entire year. Madeline and Jorge provide all of Wallace’s support and have a combined earned income of $40,000. Can Madeline and Jorge claim the Earned Income Tax Credit?
   a. Yes
   b. No

2. Claire is a single parent with $35,000 of earned income. Her son, Raymond, is 22 years old and a full-time college student. Raymond lived on campus during the semester and returned to live in Claire’s home over summer break. Claire paid for all of Raymond’s support during the year. Can Claire claim the Earned Income Tax Credit?
   a. Yes
   b. No

3. Chad is single, has no dependents, and lived in Colorado the entire year. He was 26 at the end of 2019 and had earned income of $14,000. He has a Social Security number and he cannot be claimed as a dependent on anyone else’s return. Can Chad claim the Earned Income Tax Credit?
   a. Yes
   b. No
4. Phil and Kara have been divorced since 2017. They have a divorce decree stating Phil can claim their eight-year-old daughter Lydia as a dependent on his tax return this year. Lydia lived with Kara the entire tax year and all three of them have Social Security numbers. Which of the following is true?
   a. Kara can claim Lydia as a dependent and can claim the EITC since Lydia lived with her the whole year
   b. The divorce decree allows Phil to claim Lydia as a dependent and for the EITC
   c. Phil can claim Lydia as a dependent and Kara can claim the EITC for Lydia
   d. Neither parent can claim the EITC
CHAPTER 15

Taxable Scholarships & Education Credits

Learning Objectives
• Overview & Definitions
• Taxable Scholarships & Grants
• Education Tax Credits
• Grants and Scholarships Used for Living Expenses
• Students as Dependents

Overview & Definitions

When a taxpayer or their dependent is a student at a post-secondary educational institution, it is not always immediately apparent how this information will affect their tax return. Students who use scholarships or grants to pay for basic living expenses usually are required to report it as income on their tax return; however, if students or their parents pay for qualified education expenses, they may be eligible to receive a tax credit to help offset the costs of higher education. This chapter aims to explain the various ways enrolling in a postsecondary institution may influence a taxpayer’s return.

In order to begin calculating educational taxable income or credits, it’s important to first understand what an eligible postsecondary institution is; what are qualified education expenses; and how people pay for those expenses.

Eligible postsecondary institutions: An eligible institution is generally any accredited public, nonprofit or private postsecondary school eligible to participate in a student aid program administered by the U.S. Department of Education. A searchable database of all accredited schools is available at ope.ed.gov/accreditation/.

Qualified education expenses: Generally speaking, qualified education expenses include tuition, fees that must be paid to the institution as a condition of enrollment or attendance, and related expenses required for enrollment or attendance (required books and supplies). The eligibility of expenses differs slightly depending on the education credit being claimed. Living expenses like housing, food and car expenses do not qualify as qualified education expenses. In addition, computers are not considered a qualified education expense by the IRS.

Financial Assistance: Due to the high cost of postsecondary education, very few taxpayers can pay their entire tuition, fees and related expenses out-of-pocket, which is why many apply for financial assistance. Students may receive a combination of scholarships, grants, stipends and loans to pay for these expenses. Grants are usually awarded based on the student’s demonstrated financial need, while scholarships are usually awarded based on merit, such as academic, athletic or artistic talent. A stipend is given to allow individuals to pursue work or research that is normally unpaid. Students are often given stipends to help offset their educational or living expenses so that they can focus on their studies and research. Grants, scholarships and stipends are not paid back to the institutions. Student loans granted by government and private institutions also help students pay for the expense of attending a postsecondary institution; however, loans are required to be paid back to those institutions, usually with interest. Because the student and/or their parent/guardian are required to pay back the loan, any expenses covered by them are considered to be paid by the taxpayer/student.
Records of Expenses and Financial Aid

To determine the total qualified education expenses a student incurs and the financial aid used to pay for those expenses, tax preparers should look at three sources. Students should receive a Form 1098-T, Tuition Statement, which is issued by educational institutions for informational purposes. The primary purpose of Form 1098-T is to record the payments received by the school for qualified tuition and related expenses in Box 1, as well as scholarships and grants awarded during the tax year in Box 5. However, Form 1098-T is often inadequate in its representation of the scholarships and grants received and the expenses paid. In order to accurately assess taxable and nontaxable income or out-of-pocket educational expenses, it’s strongly encouraged to utilize a printout of the student’s account record and any available receipts. This will help determine the correct handling of the 1098-T. Using the printout, tax preparers should separate all loans and payments made by students and their guardians from all scholarships, grants and stipends received. In addition to the account record, receipts for books and supplies purchased by the taxpayer may also need to be considered when calculating the out-of-pocket expenses.

Once the preparer determines the total qualified education expenses and the total scholarships and/or grants, they can calculate how it will impact their return. There are typically three outcomes:

1. If scholarships and grants received were greater than total qualified education expenses and they were used on living expenses, then the difference is considered taxable income and must be reported on their tax return.
   - Scholarships/Grants > Qualified Education Expenses: Taxable Income

2. If qualified education expenses exceed the total scholarships/grants and the excess expenses were paid by out of pocket (including through the use of loans), then the difference is considered education expenses that can be used to claim one of two education credits.
   - Scholarships/Grants < Qualified Education Expenses: Education Credit

3. If the total qualified education expenses equal the total scholarship/grants received, then generally there is not taxable income or credits to report on the tax return.
   - Scholarships/Grants = Qualified Education Expenses: No Taxable Income or Education Credits

Note: There are times when a grant/scholarship can be reported as income and still for a credit. You’ll learn more about this option later in the chapter.

**Taxable Scholarships & Grants**

Scholarships and grants used to pay for personal/living expenses like room and board must be included as taxable income on Line 1 of the 1040. It’s important to remember loans are different than scholarships and grants. Loans represent out-of-pocket payments made by the taxpayer or their parents/guardians.

**TaxSlayer Tip**

Enter all taxable scholarships/grants in TaxSlayer under Income -> Other Income -> Other compensation -> Scholarships and Grants. This will correctly carry it to line 1 of the 1040.
**Example:** Marjorie received $8,000 in scholarships and grants during the tax year. They went towards paying $3,000 in tuition, $500 in books and supplies, and $4,500 in room and board. The $3,500 used on qualified education expenses are not taxable but the $4,500 for room and board have to be reported as taxable scholarship income on line 1 on form 1040.

---

**Education Tax Credits**

Any excess qualified, educational expenses not covered by grants and scholarships may be used to claim one of two education credits, the American Opportunity Tax Credit and the Lifetime Learning Credit. For these education tax credits, the eligible student can be the taxpayer, their spouse, or a dependent that is being claimed as an exemption on their tax return (discussed in more detail later).

Although the education credits differ in requirements and benefits there are a few basic requirements that must be met for all taxpayers:

- Taxpayers cannot be claimed as a dependent on someone else’s tax return.
- Taxpayers cannot file Married Filing Separately.
- They were not nonresident aliens for part of the year.
- The student must go to an eligible institution.

**American Opportunity Tax Credit (AOTC)**

The maximum amount of the credit is $2,500 per student (100% of the first $2,000 of expenses, plus 25% of the next $2,000). Up to 40% ($1,000) of the credit is a refundable credit, meaning that even if the taxpayer’s tax liability is $0, they are eligible to receive a refund for the amount of the credit, up to $1,000.

To qualify for the AOTC students must:

1. Still be in the first four years of postsecondary study (generally the freshman, sophomore, junior and senior years).
   a. Many students take more than four years to complete their undergraduate degree. Any expenses accrued after their first four years of postsecondary education would not be eligible for the AOTC.
2. Be enrolled at least halftime for at least one academic period in an undergraduate program leading to a degree, certificate or other recognized credential at an accredited college or vocational school.
3. Have qualified educational expenses including tuition, fees, and course materials (books, supplies and equipment needed for a course of study), whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance.
   a. Computer equipment is not considered a qualified expense for this credit unless it is required for the course and is required for all students in the program.
   b. Taxpayers can claim tuition expenses paid with loans. However, expenses covered by scholarships and grants do not qualify.
   c. Also, filers can claim expenses paid for their dependent, even when the dependent or a third party paid those expenses.
4. Not be convicted of a felony for possessing or distributing a controlled substance.

In very few cases, a student will not be eligible for the refundable portion of the American Opportunity Credit. Instead the allowed credit will be used to reduce the tax as a nonrefundable credit. This occurs when the student falls into ALL three of the following categories:

1. Is one of the following:
   a. Under age 18 at the end of the tax year;
   b. Age 18 at the end of the tax year with earned income less than half of the student’s total support;
   c. Over age 18 and under age 24 at the end of 2019 and a full-time student with earned income less than half of total support;
2. Has at least one parent alive at the end of 2019;
3. The student is not filing a joint return.

**Lifetime Learning Credit**

Is available for any years of postsecondary education and for courses that will acquire or improve job skills. This credit is available for an unlimited number of years and the student need not be pursuing a degree or other recognized education credential. The nonrefundable credit is available for one or more courses that are
being taken during the tax year and is up to $2,000. The felony drug conviction rule does not apply. Books are only eligible expenses for the Lifetime Learning Credit if they are required and paid to the educational institution. Form 8863, Part III is used to claim either the American Opportunity or the Lifetime Learning Credit.

**Form 8863**
Both the American Opportunity Tax Credit and the Lifetime Learning Credit are claimed on Form 8863. Form 8863 has two pages. If possible, preparers should always refer to the student’s financial records online as opposed to relying solely on a 1098-T form. There are also a number of questions to answer on Page 2 to determine if American Opportunity Credit or Lifetime Learning Credit is appropriate.

**Page 1:** Part I has information related to the refundable portion of the American Opportunity Credit, and Part II sums the amount of nonrefundable education credits, including the nonrefundable portion of the AOTC and Lifetime Learning Credit.

**Page 2:** Page 2 of Form 8863 must be completed first for each student looking to have an education credit claimed. Information must be provided on Page 2 regarding the institution the student attended (name and address; also, EIN if a 1098-T was provided).

**Line 20 and 21:** The student’s name and SSN must be entered.
**Line 22:** Will need to be filled out detailing information about the educational institution.
- Line 22.a.1—Enter the school’s name and address. If the taxpayer does not have a 1098-T, search for the school’s address online and complete.
- Line 22.a.2—Mark either “Yes” or “No” if taxpayer has a 1098-T.
- Line 22.a.3—The majority of taxpayers will not have a prior year 2017 Form 1098-T with them. **If this is the case, check “No.”**
- Line 22.a.4—The EIN of the institution will be located in the box labeled “FILER’S federal identification no.”
- Repeat these steps for Line 22.b, if student attended another school.

**Lines 23 – 26:** Will need to be read carefully and answered.
**Line 27:** Will be used to account for qualified education expenses related to the American Opportunity Credit.

---

**Tip:** The question on Line 23 is worded in a confusing way. The preparer should only answer yes if the taxpayer has already claimed the Hope Credit or AOTC 4 times in the previous tax years.

**TaxSlayer Tip**
Both the American Opportunity Tax Credit and the Lifetime Learning Credit are entered in TaxSlayer under Deductions -> Credits Menu -> Education Credits. Do not enter qualified education expenses paid for by scholarships and grants.
Grants & Scholarships Used for Living Expenses

Part of the student’s financial aid package (scholarships, loans, etc.) could be made up of scholarships that may be used for personal/living expenses such as room and board or food. The most common of these is the Pell Grant. There are two ways to calculate the amount of scholarships and education expenses when these types of grants are included.

Current law generally allows students to decide whether to treat their Pell Grants (and other qualifying scholarships) as paying for Qualified Tuition Related Expenses or for living expenses. Notably, a student may choose to treat his/her Pell Grant as paying for living expenses even if the institution applies the Pell Grant against tuition and fees. A student may allocate Pell Grant funds toward living expenses up to the amount of his/her actual living expenses, which may differ from the living expenses estimated by his/her school in computing his/her official cost of attendance under student aid rules.

The federal tax requirements applicable to this allocation decision are that:

1. Any scholarship (including a Pell Grant) be used in a manner consistent with its terms,
2. Any scholarship that is allocated to Qualified Tuition and Related Expenses (QTRE) be subtracted from QTRE for purposes of the American Opportunity Tax Credit (AOTC) or Lifetime Learning Credit (LLC), AND
3. Any scholarship that is allocated to living expenses be included in taxable income on the student’s (and not the parent’s) federal income tax return.

Many students would benefit by claiming at least a portion of their QTRE for the AOTC, even if that requires including some of their Pell Grant (or other scholarships) as taxable income. The optimal strategy is specific to each student’s situation.

Example: Daniel only had $8,300 in wages in 2019. He is a full-time student, cannot be claimed as a dependent, and meets all the tests to qualify for the American Opportunity Tax Credit (AOTC). He received $5,000 in a Pell grant and had $3,000 of educational expenses. Daniel would be required to claim the excess of $2,000 Pell grant, which would leave him with $0 tax liability and $0 in credits. If he claimed all of the Pell grant as taxable income (and could prove he had at least that much in living expenses) and claimed the $3,000 of educational expenses towards the AOTC, he would have a tax liability of $291 and could claim $1,191 of the AOTC, which would give him a net benefit of $900.

Students as Dependents

If the student can claim themselves on their tax return, the student would report the scholarship income and/or claim any eligible education credits. However, if the student is being claimed as a dependent on another taxpayer’s return, the student would still be responsible for reporting scholarship income but the person(s) claiming the student would claim any eligible tax credits.

Whenever possible, it’s helpful to prepare a dependent student’s tax return alongside the parent or guardian claiming them.

Summary

• Three outcomes for post-secondary education:
  • Scholarships & Grants greater than eligible education expenses = taxable scholarship income
  • Scholarships & Grants less than eligible education expenses = education credit
  • Scholarships & Grants equal eligible education expenses = no taxable income or education credits
• American Opportunity Credit (AOC) is refundable, Lifetime Learning Credit (LLC) is Nonrefundable.
• AOC and LLC have slightly different requirements.
• Certain grants like the PELL grant can be used as taxable income, thereby increasing qualified tuition related expenses and resulting in an education credit. This is sometimes more beneficial to taxpayers but depends on the situation.

Tip: Figuring the best use of these types of scholarships and grants can be challenging. To help separate the information, use the education worksheet provided by your teacher/site coordinator.
The following practice tax return will be covered during the second in-person tax training. You are not required to complete it before your second training, but are welcome to work on it if you desire. This return includes content from all prior chapters featuring basic certification information. Use Publication 4012, Tabs A-F to prepare this return using the TaxSlayer software. Check your answers using the Answer Key in Section VI of this guide.

Interview Note:
• Mariah and Charles Dodd are married and wish to file a joint return.
• Mariah took classes at a college to improve her job skills. She brought a 1098-T reporting expenses for the class. She had no other expenses for this class.
• Their son Anthony is a full-time student in college and lives at the Dodd home during the summer. His parents provide all his support and paid for his college expenses.
• The Dodds paid for daycare for their daughter, Nina, while they were at work. They have included a payment summary from the daycare.
• Jodie Dodd is Mariah’s daughter from her previous marriage and Mariah claims Jodie every other year. Per a court decree, her ex-spouse can claim Jodie as a dependent on his tax return this year. Jodie lived with the Dodds the entire year.
• Martha Dodd is Charles’s mother and lived with them the entire year. Martha’s only income is social security and Charles and Mariah paid for all of Martha’s expenses.
• Anthony received a 1098-T reporting payments and scholarships for his college. He also has a receipt showing $500 spent on books required for his classes.

Forms

[Image of Social Security cards for each family member]
Form 13614-C

Intake/Interview & Quality Review Sheet

Department of the Treasury - Internal Revenue Service

OMB Number 1545-0064

You will need:
- Tax information such as Forms W-2, 1099, 1098, 1098-T, security cards or other letters for all persons on your tax return.
- Picture ID (such as valid driver’s license) for you and your spouse.
- Please complete pages 1-4 of this form.
- You are responsible for the information on your return. Please provide complete and accurate information.
- If you have questions, please ask the IRS-certified volunteer preparer.

Volunteers are trained to provide high quality service and uphold the highest ethical standards.

To report unethical behavior to the IRS, email info@irs.gov.

Part I – Your Personal Information

1. Your first name: Mariah
2. Last name: Dodd
3. Marital status: Married
4. Date of Birth: 3/2/1966
5. Your job title: Falcon Supervisor
6. Your spouse’s job title: Floor Supervisor
7. Your spouse’s date of birth: 6/12/1957
8. Place of birth: Denver
9. City:
10. APT:
11. ST:
12. ZIP code:
13. Full-time student: Yes
14. Legally blind: No
15. Year of spouse’s death:

Part II – Marital Status and Household Information

Name, address, date of birth, marital status, relationship to you, number of dependents, last year’s income, single or married tax filer, state, full-time student, legally blind, date of death, year of death, and any additional information

Anthony Dodd
2/2/1997
Son
12
Yes
Yes
Yes
Yes
No

Nina Dodd
5/13/2011
Daughter
12
Yes
Yes
S
S
No

Jodie Dodd
4/15/2003
Daughter
12
Yes
Yes
S
S
No

Martha Dodd
12/1/1945
Mother
12
Yes
Yes
S
S
No

Check appropriate box for each question in each section

Part II – Income – Last Year, Did You (or Your Spouse) Receive

Yes
No
Unsure

1. (b) Wages or Salary (Form W-2)?
2. (a) TIP income?
3. (b) Scholarships (Forms W-2, 1098-T, 1099-A)?
4. (b) Interest/Dividends from checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
5. (b) Refund of state/local income taxes? (Form 1099-G)
6. (b) Alimony income or separate maintenance payments?
7. (a) Self-employment income? (Form 1040-SE
8. (a) Cash/check deposits for any work performed not reported on Forms W-2 or 1099?
9. (b) Social Security or retirement benefits? (Form 1099-R, W-2)
10. (b) Disability income? (such as payments from insurance, or workers compensation) (Form 1099-R, W-2)
11. (b) Interests or dividends? (Form 1099-INT, 1099-DIV)
12. (b) Unemployment Compensation? (Form 1099-G)
13. (b) Rent, or annuity, or other income from a pension or annuity
14. (b) Income (or loss) from Rental Property
15. (b) Income from gambling, lottery, prizes, awards, jury duty, Fr-H-1, royalties, foreign income, etc

Part II – Life Events – Last Year, Did You (or Your Spouse) Pay

Yes
No
Unsure

1. (b) Death? (Form 1099-A)
2. (b) Divorce or legal separation? (Form 1099-A)
3. (b) Adoption? (Form 1099-A)
4. (b) Loss? (Form 1099-A)
5. (b) Sale of home? (Form 1099-A)
6. (b) Installment sale? (Form 1099-A)
7. (b) Foreclosure? (Form 1099-A)
8. (b) Inheritance? (Form 1099-A)
9. (b) Gift? (Form 1099-A)

Page 2

Catalog Number 52121E

www.irs.gov

Form 13614-C (Rev. 10-2019)

91
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<td>Mariah Dodd</td>
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<td>12c</td>
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<td>12d</td>
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<tr>
<td>Employee’s address and ZIP code</td>
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<td>13 Statutory employee</td>
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<td>17 State income tax</td>
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<td>18 Local wages, tips, etc.</td>
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<td>19 Local income tax</td>
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<td>20 Locality name</td>
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</tbody>
</table>

Form W-2 Wage and Tax Statement 2019 Department of the Treasury—Internal Revenue Service

Copy 1—For State, City, or Local Tax Department
### Midwestern Mountain College

**FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number**

Midwestern Mountain College  
5280 Peak Road  
Denver, CO 80202

**STUDENT'S name**  
Anthony Dodd

**Street address (including apt. no.)**  
70 Evangelista Lane

**City or town, state or province, country, and ZIP or foreign postal code**  
Denver, CO 80202

**Service Provider/Account No. (see instr.)**  
8 Check if at least half-time student  

**Payments received for qualified tuition and related expenses**  
$10,500.00

**OMB No.** 1545-1574  
**2019**

---

### Zoological University of Colorado

**FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number**

Zoological University of Colorado  
1000 Fuzzy Blvd  
Denver, CO 80202

**STUDENT'S name**  
Mariah Dodd

**Street address (including apt. no.)**  
70 Evangelista Lane

**City or town, state or province, country, and ZIP or foreign postal code**  
Denver, CO 80202

**Service Provider/Account No. (see instr.)**  
8 Check if at least half-time student  

**Payments received for qualified tuition and related expenses**  
$566.00

---

Cider Hill Child Care  
383 Orchard Lane  
Westminster, CO 80030  
Phone: 303-XXX-XXXX

**Child's Name:** Nina Dodd  
**Payments Received 2019:** $1,400

**Total Childcare Payments 2019:** $1,400
Overview of the Affordable Care Act

The Affordable Care Act (also known as Obamacare) required all U.S. residents to maintain health insurance, known as minimum essential coverage (MEC) or qualify for a coverage exemption. The ACA also established marketplaces where individuals could obtain health insurance. Some states established their own marketplace for this purpose, like Colorado’s Connect for Health Colorado. Depending on their income, some individuals could obtain assistance to help pay for their insurance. This assistance is known as a Premium Tax Credit (PTC).

Prior to 2019, if a taxpayer did not have MEC, they were required to pay a penalty on their tax return, known as the Shared Responsibility Payment (SRP). However, in 2018, the Tax Cuts and Jobs Act passed, effectively eliminating the penalty for not having health insurance starting in tax year 2019. While this penalty no longer exists, taxpayers can still receive health coverage through the online marketplace and receive Premium Tax Credits to help pay for their insurance. If a taxpayer had health coverage through the marketplace, they are required to report this information on their tax return. Otherwise, health coverage information does not need to be reported.

Advanced Certification Required

Tax returns for individuals who received health coverage through the marketplace will require Advanced Certification. Volunteers who wish to prepare tax returns for taxpayers with this coverage will need to pass the Advanced Certification test to do so. Volunteers who are only taking the Basic Certification test will not be tested on the rest of the information in this chapter.

Premium Tax Credits & Form 1095-A

Premium Tax Credits

Taxpayers who purchased coverage through the Marketplace may be eligible for the premium tax credit. The marketplace calculates this credit, which is refundable, at the beginning of a tax year. The credit is used to offset the cost of health insurance premiums. Taxpayers may elect to take the credit through the year (advanced premium tax credit) or may wait to claim the credit on the tax return.

Because an advance credit can be claimed, the premium tax credit allowed must be reconciled with the premium tax credit taken in advance. Reconciliation is completed on Form 8962. Individuals will receive a statement, Form 1095-A, that reports coverage, each household member covered, monthly premium amounts, lowest cost silver plan, and advance premium tax credit payments. This form will be used to complete Form 8962, the Healthcare Marketplace reconciliation form. In most cases, only Lines 11-23 need to be completed.
The Form 1095-A will indicate all covered household members, the dates of coverage, and the premiums due and paid. Part III of the 1095-A will be entered on Form 8962:

<table>
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<th>Part III Coverage Information</th>
</tr>
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<tbody>
<tr>
<td>Month</td>
</tr>
<tr>
<td>21 January</td>
</tr>
<tr>
<td>22 February</td>
</tr>
<tr>
<td>23 March</td>
</tr>
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**Column A** is the total cost of the taxpayer’s essential health insurance.

**Column B** lists the state’s second lowest (silver) plan cost. If this column is blank, the preparer must go to the state’s marketplace website to determine cost. For Colorado residents, go to: http://taxinfo.connectforhealthco.com/.

**Column C** indicates the monthly advance premium tax credit received. The advance premium tax credit is used to offset the taxpayer’s out-of-pocket costs.

If a taxpayer received an advanced premium tax credit and is filing married filing separately, any advanced premiums received must be repaid. There is one exception—if the taxpayer was a victim of domestic violence, the taxpayer will not be penalized. Check the Box right above Part I.

Form 8962 is used to calculate the amount of PTC that should have been received. Once calculated this amount will be compared to the amount received through the state Marketplace. Some taxpayers will not have received all the Premium Tax Credit that they should have. The amount they did not receive will be added to their refund (Line 9 on Schedule 3). Other taxpayers will have received too much PTC. These taxpayers will repay the difference through a reduction of their refund or increase in amount owed (Line 2 on Schedule 2).

**Summary**
- Taxpayers who purchased health insurance through the marketplace will receive Form 1095-A, which must be reported on their tax return.
- Taxpayers who received the advanced premium tax credit must repay any excess credit on their tax return.
- Taxpayers who chose not receive the advanced premium tax credit will receive the premium tax credit on their tax return as a refundable credit.
Out of Scope for VITA
• Self-employed health coverage deductions for taxpayers who are also allowed a PTC
• Form 8962 Part IV, Allocation of Policy Amounts, and Part V, Alternative Calculation for Year of Marriage
• Individuals eligible for the health coverage tax credit
• If there is a code FF on Form W-2, box 12 and the employee has a Marketplace policy and is otherwise eligible for PTC

PRACTICE RETURN

Instructions: Use Publication 4012, Tab H, and Chapter 16 of this guide to complete the following tax return in TaxSlayer. Check your answers using the Answer Key in Section VI of this guide.

Interview Notes—Newman:
• Corwin Newman worked three part-time jobs in 2019.
• He is single and has no dependents.
• He enrolled for health coverage through Connect for Health Colorado in February and received form 1095-A.
• Corwin was ineligible for health coverage offered through an employer.

Forms
### Wage and Tax Statement

**Employee's social security number**: 883-XX-XXXX

**State**: CO

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<tr>
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<td>Social security wages</td>
<td>Social security tax withheld</td>
<td>Medicare wages and tips</td>
<td>Medicare tax withheld</td>
<td>Social security tips</td>
<td>Allocated tips</td>
<td>State wages, tips, etc.</td>
<td>State income tax</td>
<td>Local wages, tips, etc.</td>
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**Employer's name, address, and ZIP code**

**SPOOKY TREE CANDY SHOP**

10 EVANS BLVD
DENVER, CO 80202

**Employee's first name and initial**

**Last name**

**Suff.**

<table>
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<tr>
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**State**: CO

**Employer's state ID number**: 22-3344556

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<td>Local wages, tips, etc.</td>
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### Wage and Tax Statement

**Employee's social security number**: 883-XX-XXXX

**State**: CO

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<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>18</th>
<th>19</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages, tips, other compensation</td>
<td>Federal income tax withheld</td>
<td>Social security wages</td>
<td>Social security tax withheld</td>
<td>Medicare wages and tips</td>
<td>Medicare tax withheld</td>
<td>Social security tips</td>
<td>Allocated tips</td>
<td>State wages, tips, etc.</td>
<td>State income tax</td>
<td>Local wages, tips, etc.</td>
<td>Local income tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>$8,630.37</td>
<td>$863.00</td>
<td>$8,630.37</td>
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</tbody>
</table>

**Employer's name, address, and ZIP code**

**SOFTY'S SWEATER COMPANY**

200 CASHMERE COURT
DENVER, CO 80202

**Employee's first name and initial**

**Last name**

**Suff.**

<table>
<thead>
<tr>
<th>12a</th>
<th>12b</th>
<th>12c</th>
<th>12d</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

**State**: CO

**Employer's state ID number**: 22-3300556

<table>
<thead>
<tr>
<th>18</th>
<th>19</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local wages, tips, etc.</td>
<td>Local income tax</td>
<td></td>
</tr>
</tbody>
</table>

---

Department of the Treasury—Internal Revenue Service
**Form 1095-A**  
Health Insurance Marketplace Statement  
Voided/Corrected

**Part I**  
Recipient Information

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Recipient’s spouse’s name</td>
<td></td>
<td>8. Recipient’s spouse’s SSN</td>
<td></td>
<td>9. Recipient’s spouse’s date of birth</td>
</tr>
</tbody>
</table>

**Part II**  
Covered Individuals

|-----------------------------|--------------|----------|----------|------------|

**Part III**  
Coverage Information

<table>
<thead>
<tr>
<th>Month</th>
<th>A. Monthly enrollment premiums</th>
<th>B. Monthly second lowest cost silver plan (SILCSP) premium</th>
<th>C. Monthly advance payment of premium tax credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>$344.18</td>
<td>$351.68</td>
<td>$275.34</td>
</tr>
<tr>
<td>February</td>
<td>$344.18</td>
<td>$351.68</td>
<td>$275.34</td>
</tr>
<tr>
<td>March</td>
<td>$344.18</td>
<td>$351.68</td>
<td>$275.34</td>
</tr>
<tr>
<td>April</td>
<td>$344.18</td>
<td>$351.68</td>
<td>$275.34</td>
</tr>
<tr>
<td>May</td>
<td>$344.18</td>
<td>$351.68</td>
<td>$275.34</td>
</tr>
<tr>
<td>June</td>
<td>$344.18</td>
<td>$351.68</td>
<td>$275.34</td>
</tr>
<tr>
<td>July</td>
<td>$344.18</td>
<td>$351.68</td>
<td>$275.34</td>
</tr>
<tr>
<td>August</td>
<td>$344.18</td>
<td>$351.68</td>
<td>$275.34</td>
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<tr>
<td>September</td>
<td>$344.18</td>
<td>$351.68</td>
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</tr>
<tr>
<td>October</td>
<td>$344.18</td>
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<td>$275.34</td>
</tr>
<tr>
<td>November</td>
<td>$344.18</td>
<td>$351.68</td>
<td>$275.34</td>
</tr>
<tr>
<td>December</td>
<td>$344.18</td>
<td>$351.68</td>
<td>$275.34</td>
</tr>
<tr>
<td>Annual Totals</td>
<td>$3,785.98</td>
<td>$3,868.48</td>
<td>$3,028.74</td>
</tr>
</tbody>
</table>

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.
Overview for VITA

Tax Help Colorado currently does not require its VITA volunteers to be certified in non-resident and international student tax returns. However, with currently over 500,000 international students and scholars at American colleges and universities to study, teach, and do research, it is important for screeners to establish whether or not a taxpayer is a resident or nonresident alien to determine if VITA volunteers at the tax site are certified to prepare their return.

Substantial Presence Test

A taxpayer will be considered a United States resident for tax purposes if they meet the substantial presence test for the calendar year.

To meet this test, the taxpayer must be physically present in the U.S. on at least:

1. 31 Days during the current year, and
2. 183 days during the 3-year period that includes the current year and the 2 years immediately before that, counting:
   a. All the days you were present in the current year, and
   b. 1/3 of the days you were present in the first year before the current year, and
   c. 1/6 of the days you were present in the second year before the current year.

Example: Rashawn was physically present in the U.S. for 150 days in each of the years 2019, 2018, and 2017. To determine if Rashawn meets the required substantial presence test, you would add it as follows:

2019: 150 Days
2018: 50 Days (1/3 of 150)
2017: 25 days (1/6 of 150)

Total: 225 days

Rashawn meets the test to be considered a resident alien under the substantial presence test for 2019: Present more than 31 days during the current year and 183 days during the 3-year period.

Days of Presence in the United States—You are treated as present in the U.S. on any day you are physically present in the country, at any time during the day. However, there are exceptions to this rule. Do not count the following days of presence in the U.S. for the substantial presence test:

- Days you commute to work in the U.S. from a residence in Canada or Mexico, if you regularly commute from Canada or Mexico.
- Days you are in the U.S. for less than 24 hours, when you are in transit between two places outside the United States.
- Days you are in the U.S. as a crew member of a foreign vessel.
- Days you are unable to leave the U.S. because of a medical condition that develops while you are in the United States.
- Days you are an exempt individual.

Alien: Any individual who is not a U.S. citizen or U.S. national
Nonresident Alien: An alien who has not passed the green card test or the substantial presence test
**Summary**

- Resident aliens follow the same tax laws as U.S. citizens.
- To determine the residency status of a noncitizen, use the Nonresident Alien or Resident Alien decision chart on page L-1 of Publication 4012.

**Out of Scope for VITA**

- Taxpayers with F, J, M, or Q visas, unless there is a volunteer and quality reviewer at your site with Foreign Student certification.
- Nonresident aliens who do not meet the green card or substantial presence test and are not married to a U.S. citizen or resident alien.
- Individuals having a dual status for the tax year.

**PRACTICE RETURN**

Use Publication 4012, Tab L and Chapter 17 of this volunteer guide to answer the following questions. Check your answers using the Answer Key in Chapter VI of this guide.

1. Miguel is 33 years old and spent most of his life in his native country, Portugal. He does not have a green card. He moved to the U.S. two years ago. In 2018 he lived in the U.S. for 90 days. In 2019 he lived in the U.S. 365 days. Does Miguel meet the substantial presence test to be considered a Resident Alien?
   
   a. Yes
   b. No

2. In 2019, Gloria moved to the U.S. from the Philippines and does not have a green card. She spent 48 days in the U.S. before moving back to the Philippines. She then returned to the U.S. and spent the last 100 days in the country. Does Gloria meet the substantial presence test to be considered a Resident Alien?
   
   a. Yes
   b. No
Introduction to Colorado State Tax Returns

Tax Help Colorado prepares both federal and state of Colorado returns. Colorado taxes individual income at a flat rate of 4.63% based on the taxable income calculated on the federal tax return. Due to Colorado’s Taxpayer Bill of Rights (TABOR) the tax rate for 2019 will drop down to 4.5%. There are a few additions and subtractions made to the state taxable income, depending on the types of income included or excluded on the federal tax return. In addition, Colorado has several additional state credits and taxes that are included on the Colorado tax return.

The TaxSlayer software is designed so that information from the federal tax return is carried over to the Colorado tax return, which is automatically prepared as the federal return is prepared. However, it is still important to understand the Colorado tax laws and note differences that can affect the taxpayer’s state return, and to always review the state return with the taxpayer.

Who Must File a Return?

A taxpayer must file a Colorado income tax return (Form 104) if they were:
- A full-year resident of Colorado, or
- A part-year resident of Colorado with taxable income during while they were a resident;
  OR
- A nonresident of Colorado with Colorado source income;
  AND
- They are required to file a federal income tax return,
  OR
- They have a Colorado income tax liability for the current year.

The TaxSlayer software assumes the taxpayer is a full-year resident of the state listed in the basic information section. If that’s not the case, the preparer must delete the assumed full-year state residency and add the correct state return(s) and residency status for each state the taxpayer, and/or their spouse, was a full-year resident, part-year resident, or non-resident.

Part-Year Colorado Resident

If an individual, and/or their spouse, was a resident of another state (or states) for part of the year, a Colorado Form 104PN must be completed in addition to the Colorado tax return (Form 104). On the 104PN, the preparer will enter the beginning and ending date the taxpayer(s) lived in Colorado on line 1. To enter this information, fill out the Basic Information page in the Colorado State Return. TaxSlayer will automatically carry over information from forms W2 to the appropriate state but you will need to enter additional income listed on the taxpayer’s Federal Return that is attributable to Colorado.

Tip: The taxpayer’s state wage information is located in Boxes 15-20 on the W-2. The tax preparer should pay attention to whether the income was earned in Colorado or another state, and be sure to enter the information correctly on the W-2 and State Section.
Full or Part-Year Resident with income earned and taxable in another state while a resident of Colorado
In this scenario the income is taxed in both states, which results in the income being taxed twice. To alleviate this double taxation, Colorado allows Colorado residents to claim the Credit for Income Tax Paid to Another State.

To claim this credit, taxpayers must complete and submit Form 104CR with their Colorado Individual Income Tax Return, Form 104 and a copy of each tax return filed in the other state. The credit is limited to the smaller of the Colorado tax calculated on the income from sources in the other state or the actual tax paid to the other state on such income.

Example: George, who is single and claiming the standard deduction, earned $3,000 in Kansas but is a Colorado resident. George had Colorado taxable income of $25,600 and a federal Adjusted Gross Income of $32,200. The tax computed on the Kansas tax return is $100. George qualifies to take a Colorado tax credit for the $100 paid to Kansas. Remember: The taxpayer must actually file the Kansas return in order to claim this credit.

Non-Resident Returns
If an individual and/or their spouse earned income in Colorado but was not a resident of Colorado, they are still required to file a Colorado state income tax return.

Tip: Tax Help Colorado allows Site Coordinators to determine which out-of-state returns they feel comfortable preparing at their site. This usually depends on the complexity of the state’s income tax laws and the type of income and expenses the taxpayer has. Always check with your Site Coordinator before preparing an out-of-state return.

If your Site Coordinator allows you to prepare an out-of-state tax return, you should always warn the taxpayer that you are not specifically certified in that state’s income tax laws. While the tax software should auto populate most of state tax return information, it is not guaranteed to maximize the return based on a state’s specific credits.

If you or the taxpayer have any questions or concerns about an out-of-state return, always check with your Site Coordinator, who may refer the taxpayer to a paid preparer.

Colorado Additions, Subtractions & Credits

Pension/Annuity Income Subtraction—A taxpayer can subtract up to $24,000 of retirement pension or annuity income for the year. The taxpayer must be over sixty-five years old and the income needs to have been taxed on their federal tax return. A taxpayer’s spouse qualifies for the same subtraction from Colorado taxable income. This information is automatically calculated and entered on schedule DR0104AD (Subtraction from Income Schedule) and then carries to line 5.

Taxpayers that receive pension or annuity income as the result of a spouse’s death can subtract up to $20,000 of pension/annuity if they are 55 years or older.

Colorado Tax Deduction for Charitable Contributions over $500—If a taxpayer had charitable contributions and did not have enough to itemize deductions on their federal tax return, they may be able to deduct charitable contributions over $500 on their Colorado tax return.

Tip: Sometimes taxpayers with modest incomes make sizable contributions to their church or other charities. It is important to check with the taxpayer to see if they have documented records, even if they don’t have enough to itemize, so they can take this deduction on their Colorado return.

Example: Eden made contributions to her church that totaled to $750 by the end of the tax year. She did not have enough qualifying expenses to itemize her deduction on her federal return. Eden qualifies to deduct up to $250 on her Colorado tax return.
**State Earned Income Tax Credit**—Full-year and part-year Colorado residents who qualify for the federal EITC can claim a 10% matching credit on their state return. The Colorado EITC is claimed on DR 0104CR, Individual Credit Schedule, and transfers to line 12 of the CO 104 form. TaxSlayer will calculate this credit automatically based on the federal return.

**Child Care Expenses Tax Credit**—To be eligible to receive the refundable Colorado Child Care Credit, they must meet all of the following tests:

1. The care must be for one or more qualifying persons who are identified on federal Form 2441.
2. The taxpayer (and their spouse if filing jointly) must have earned income during the year.
3. The taxpayer must pay child-care expenses so they (and their spouse if filing jointly) can work or look for work.
4. The taxpayer must make payments for child-care expenses to someone they (and their spouse) cannot claim as a dependent. They cannot make payments to:
   a. Their spouse, or
   b. The parent of their qualifying person if their qualifying person is their child and under the age of 13.
5. The taxpayer cannot claim this credit if their federal filing status is Married Filing Separate.
6. The taxpayer must identify the care provider on this form.

<table>
<thead>
<tr>
<th>If the federal adjusted gross income is:</th>
<th>The Colorado child care credit will be:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $25,000</td>
<td>50% of the federal child care credit</td>
</tr>
<tr>
<td>From $25,001 to $35,000</td>
<td>30% of the federal child care credit</td>
</tr>
<tr>
<td>From $35,001 to $60,000</td>
<td>30% of the federal child care credit</td>
</tr>
<tr>
<td>$60,001 or more</td>
<td>No Colorado child care credit is allowed</td>
</tr>
</tbody>
</table>

The state credit is up to $500 for one qualifying child or $1,000 for two or more qualifying children.

**Colorado Property/Rent/Heat (PTC) Rebate**—Colorado Property Tax/Rent/Heat Rebate Form (104 PTC) is a simple form that can be prepared by hand or on the computer (Property Tax Credit under State Section). Eligible applicants may apply for the prior year rebate beginning in January.

The maximum income levels to receive the rebate for 2018 are:

- For a single person: income less than $14,074
- For a married couple: income less than $18,792

Eligible applicants could receive a rebate of up to $600 of their property tax paid and $192 of their heating expenses paid during the year, either directly or as part of their rent payments.

**To claim a PTC rebate, the taxpayer must also meet all five of the following eligibility requirements:**

- As of December 31, 2018, the taxpayer or their spouse must be:
  - 65 or older, or
  - A surviving spouse, age 58 or older, or
  - A disabled person of any age who was unable to engage in any substantial gainful activity for medical purposes.
- Resided in Colorado during the entire year.

**Tip:** It is important for SCREENERS to identify taxpayers that qualify for the PTC rebate. These taxpayers are usually identified as seniors and disabled people whose only income is from Social Security or Supplemental Security Income, and claiming this rebate will be the sole reason they have come into the site. When this is the case, the taxpayer can be directed to a preparer who can either fill out a 104 PTC form by hand or electronically in TaxSlayer. These PTC recipients do not have to wait in line with the other taxpayers at the site. NOTE: Anyone who has applied for the rebate since January 2013 will be able to file the application for free electronically through Colorado’s Revenue Online.
• Are lawfully present in the United States.
• Are not claimed as a dependent on any other person’s federal income tax return.
• Must have paid property tax, rent, and/or heating expenses.

The Colorado PTC rebate is paid on a set schedule based on when the application is processed. Show the taxpayer the rebate schedule as listed in the 104PTC handbook.

Process for Receiving State Refunds and Payment of State Tax Owed—There are also specific steps that will need to be taken for the processing of a taxpayer’s state tax refund or state tax due. Taxpayers can select from the following options:

1. Deposit their state refund into the same bank account as listed on their federal return. See pages 78-79 for more information. (Direct Deposit)
2. Deposit their state refund into a different account than listed on their federal return. (Direct Deposit)
3. Receive their state refund by check. (E-File: Paper Check)
4. Withdraw the amount of state tax owed from a bank account. (E-File: Direct Debit)
5. Mail to the state a check covering their state tax owed. (E-File: Mail Payment)

Summary
• Most taxpayers who file a federal tax return at Tax Help Colorado sites will also file a Colorado state return.
• Most information for the state return will be automatically carried over from information entered on the federal return.
• Taxpayers who lived part of the year in a state other than Colorado will need to enter the dates of their residency to be taxed appropriately.
• TaxSlayer will automatically apply the following to Colorado state returns based on information on the federal return: Pension/Annuity Income Subtraction, State Earned Income Credit, Child Care Expenses Credit.
• If the taxpayer made charitable cash contributions over $500, the preparer should enter this in the itemized deductions on the federal return. TaxSlayer will then calculate a credit for Colorado state
• Taxpayers may not have a filing requirement but may still qualify for the Colorado Property/Heat/Rent Rebate – Form 104PTC.
• The IRS certification exam will not test volunteers on state returns, however, it is still important to learn in order to provide a quality service to Tax Help Colorado clients.
VI. Practice Problems

Refer to the answer key below to check your answers from the practice problems in Section V of this guide.

### Chapter 2: Filing Basics

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Explanation</th>
<th>Location in Pub. 4012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>a. Yes</td>
<td>Raymond's gross income is over $12,200</td>
<td>Tab A, Chart A on Page A-1</td>
</tr>
<tr>
<td>2</td>
<td>b. No</td>
<td>Jane &amp; Harry's gross income is below $25,700</td>
<td>Tab A, Chart A on Page A-1</td>
</tr>
<tr>
<td>3</td>
<td>b. No</td>
<td>Clark's earned income is under $12,200</td>
<td>Tab A, Chart B on Page A-2</td>
</tr>
<tr>
<td>4</td>
<td>a. Yes</td>
<td>Jonathan's self-employment income is over $400</td>
<td>Tab A, Chart C, on Page A-3</td>
</tr>
</tbody>
</table>

### Chapter 3: Filing Status

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Explanation</th>
<th>Location in Pub. 4012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>a. Single</td>
<td>Frank was unmarried &amp; had no children and is therefore Single</td>
<td>Tab B, Filing Status -Interview Tips Chart, Page B-9</td>
</tr>
<tr>
<td>2</td>
<td>b. No</td>
<td>Since Justin is neither a qualifying child nor qualifying relative he does not qualify Michael for Head of Household</td>
<td>Tab B, Head of Household chart, page B-10</td>
</tr>
<tr>
<td>3</td>
<td>a. Yes</td>
<td>Since Nancy can claim her mother as a dependent and pays over $ the cost of keeping up Maxine's main home, she can file as Head of Household.</td>
<td>Tab B, Head of Household Chart, footnote 6, page B-10</td>
</tr>
</tbody>
</table>
**Chapter 4: Exemptions & Dependents**

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Explanation</th>
<th>Location in Pub. 4012</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>b. Either MFJ or MFS</td>
<td>Since Claudia is filing her return for the tax year when Raymond passed away, and she would have been eligible to file MFJ or MFS, she can file as either of those statuses for that specific tax year.</td>
<td>Tab B, Filing Status -Interview Tips Chart, page B-9</td>
</tr>
<tr>
<td>5</td>
<td>a. Qualifying Widow(er)</td>
<td>Claudia meets the qualifications to file as Qualifying Widow(er) and can do so the two tax years after her spouse died</td>
<td>Tab B, Filing Status -Interview Tips Chart, Page B-9</td>
</tr>
</tbody>
</table>

**Chapter 5: Income—Wages, Interest, Dividends, Alimony & Taxable Refunds**

The completed tax return was not available at the time of printing. You will receive the answers at your first in-person training session with Tax Help Colorado staff.
## Chapter 6: Business Wages

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Explanation</th>
<th>Location in Pub. 4012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>a. Coin Collection</td>
<td>Taxpayer is not in the business of selling coins and thus this is not considered self-employment.</td>
<td>“What is business income” in Volunteer Guide</td>
</tr>
<tr>
<td>2</td>
<td>a. True</td>
<td>Not including all allowable expenses can cause the taxpayer’s income to be higher, potentially resulting in a higher Earned Income Tax Credit (covered in Chapter 13), which is not allowed by the IRS.</td>
<td>“Expenses” in Volunteer Guide</td>
</tr>
<tr>
<td>3</td>
<td>a. 13</td>
<td>Only 13 miles are considered business miles, the other miles are commuting miles and are not deductible</td>
<td>“Car and Truck Expenses” in Volunteer Guide &amp; Pub 4012 Tab D, Page D-21</td>
</tr>
<tr>
<td>4</td>
<td>c. Brooke</td>
<td>Kayla has a Net Loss, Alex wants to deduct actual vehicle expenses, and Cassandra has inventory, which are all out of scope.</td>
<td>Pub 4012, Tab D</td>
</tr>
<tr>
<td>5</td>
<td>b. no</td>
<td>Similar to question 2, excluding allowable expenses to increase certain tax credits is not allowed by the IRS.</td>
<td>“Expenses” in Volunteer Guide</td>
</tr>
</tbody>
</table>

## Chapter 7: Capital Gains & Losses

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Explanation</th>
<th>Location in Pub. 4012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>b. False</td>
<td>Inherited property is always considered a long-term gain, regardless of the holding period</td>
<td>“Holding period” in Volunteer Guide</td>
</tr>
<tr>
<td>2</td>
<td>c. Gain of $265</td>
<td>The commission fee of $35 is added to the basis. Then the sales price is subtracted from the adjusted basis of $2,335 to give a gain of $265.</td>
<td>“Basis” in Volunteer Guide</td>
</tr>
<tr>
<td>3</td>
<td>b. Taxpayer’s gain cannot exceed $100,000</td>
<td></td>
<td>“Exclusion of Gain” in Volunteer Guide. “Capital Gains or Losses Sale of Main Home” in Pub 4012, Tab D</td>
</tr>
</tbody>
</table>

## Chapter 8: Retirement

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Explanation</th>
<th>Location in Pub. 4012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>b. Check Rollover box</td>
<td>It is required to enter this form into TaxSlayer. Checking the rollover box and entering the amount of rollover will cause the distribution to not be taxed.</td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Answer</td>
<td>Explanation</td>
<td>Location in Pub. 4012</td>
</tr>
<tr>
<td>----------</td>
<td>--------</td>
<td>-------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>2</td>
<td>a. You don’t, code 5 is out of scope and the return cannot be completed at the site</td>
<td>Since it is an early distribution, not a rollover, and doesn’t qualify for an exception, Valerie must pay an additional 10% tax on the distribution</td>
<td>“Form 1099-R Box 7 Distribution Codes” in Pub 4012, Tab D, Page D-39</td>
</tr>
<tr>
<td>3</td>
<td>c. taxed additional 10%</td>
<td></td>
<td>“Form 1099-R Box 7 Distribution Codes” in Pub 4012, Tab D, Page D-39</td>
</tr>
</tbody>
</table>

### Chapter 9: Social Security, Unemployment & Other Income

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Explanation</th>
<th>Location in Pub. 4012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>b. Enter $400 as winnings and $300 as losses as a deduction</td>
<td>The full amount of the winnings are taxable, but the losses would count as a deduction.</td>
<td>“Gambling Winnings” in Volunteer Guide. “Other Income” in Pub 4012, Tab D, Page D-51</td>
</tr>
<tr>
<td>2</td>
<td>a. As other income not reported elsewhere.</td>
<td>Even though it is on a 1099-MISC, the income is in box 3 indicating it is other income. Entering it as self-employment income will cause it to be taxed incorrectly.</td>
<td>“Prizes and Awards” in Volunteer Guide. “Other Income” in Pub 4012, Tab D</td>
</tr>
<tr>
<td>3</td>
<td>c. No, but he should file</td>
<td>Even though he is not required to file (since D his SS income is below $25,000) he would receive the tax withheld on the SS income as a refund.</td>
<td>“Reporting social security income” in Volunteer Guide.</td>
</tr>
</tbody>
</table>

### Chapter 10: Adjustments to Income

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Explanation</th>
<th>Location in Pub. 4012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>b. $450</td>
<td>The adjustment is worth up to $250 per person. Skylar can only take an adjustment of $250 and Claire $200.</td>
<td>“Educator Expenses” in Volunteer Guide and Pub 4012, Tab E, Page E-3</td>
</tr>
<tr>
<td>2</td>
<td>d. $3,600</td>
<td>$300 X 12 months = $3,600</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>a. $0</td>
<td>Since Marlene is married filing separately, she is disqualified from taking the student loan interest deduction.</td>
<td>“Student Loan Interest Deduction at a Glance” in Pub 4012, Tab E. Student loan interest deduction in Volunteer Guide.</td>
</tr>
</tbody>
</table>

### Chapter 11: Standard & Itemized Deductions

The completed tax return was not available at the time of printing. You will receive the answers at your first in-person training session with Tax Help Colorado staff.
### Chapter 12: Nonrefundable Credits

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Explanation</th>
<th>Location in Pub. 4012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>d. $2,000</td>
<td>The maximum credit is $2,000</td>
<td>Page G-2 in Pub. 4012</td>
</tr>
<tr>
<td>2</td>
<td>c. Credit for Other Dependents</td>
<td>Jeremy is too old to qualify for the Child Tax Credit but would qualify for ODC</td>
<td>Page G-2 in Pub. 4012</td>
</tr>
<tr>
<td>3</td>
<td>b. No</td>
<td>Marla is too old for the credit – she would need to be under 13 years old.</td>
<td>Page G-10 in Pub. 4012</td>
</tr>
</tbody>
</table>

### Chapter 14: Payments & Refundable Credits

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Explanation</th>
<th>Location in Pub. 4012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>b. No</td>
<td>Jorge has an ITIN which disqualifies them for the credit</td>
<td>Page I-3, Step 2 in Pub. 4012</td>
</tr>
<tr>
<td>2</td>
<td>a. Yes</td>
<td>Raymond qualifies Claire to claim the EITC</td>
<td>Page I-3, Step 5 &amp; footnote 2 in Pub. 4012</td>
</tr>
<tr>
<td>3</td>
<td>a. Yes</td>
<td>Chad meets all the tests to claim the EITC</td>
<td>Page I-5 in Pub. 4012</td>
</tr>
<tr>
<td>4</td>
<td>c. Phil can claim Lydia as a dependent and Kara can claim the EITC for Lydia</td>
<td>Since Lydia did not live with Phil more than half the year, Phil cannot claim the EITC for her. Kara cannot claim Lydia as a dependent but can claim Lydia for the EITC</td>
<td>Page I-2, Part B in Pub. 4012</td>
</tr>
</tbody>
</table>

### Chapter 15: Taxable Scholarships & Education Benefits

The completed tax return was not available at the time of printing. You will receive the answers at your first in-person training session with Tax Help Colorado staff.

### Chapter 16: Affordable Care Act

The completed tax return was not available at the time of printing. You will receive the answers at your first in-person training session with Tax Help Colorado staff.

### Chapter 17: Nonresident Aliens & International Students

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Explanation</th>
<th>Location in Pub. 4012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>a. Yes</td>
<td>Miguel’s days of presence: 2018 (1/3 of 90 days = 30 days) plus 2019 (all 365) is 395, which is above the 183 days required to be considered a Resident Alien</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>b. No</td>
<td>Gloria’s 148 days of presence does not meet the required 183 days to be considered a Resident Alien</td>
<td></td>
</tr>
</tbody>
</table>
Out of Scope Reference List
For a comprehensive scope of service list, refer to Publication 4012, pages 5-15.

Form Reference List
The following list describes tax information, the forms it is reported on, and where to enter it in the TaxSlayer software.

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<thead>
<tr>
<th>Description</th>
<th>Form</th>
<th>TaxSlayer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alimony Paid</td>
<td>Client Information</td>
<td>Deductions → Adjustments → Alimony Paid</td>
</tr>
<tr>
<td>Alimony Received</td>
<td>Client Information</td>
<td>Income → Alimony Received</td>
</tr>
<tr>
<td>Cash Income (no 1099-Misc)</td>
<td>Client Information</td>
<td>Income → Profit or Loss from a Business</td>
</tr>
<tr>
<td>Charitable Contributions</td>
<td>Donation Receipts</td>
<td>Deductions → Itemized Deduction → Gifts to Charity</td>
</tr>
<tr>
<td>Child and Dependent Care Expenses</td>
<td>Provider Statements</td>
<td>Deductions → Credits Menu → Child Care Credit</td>
</tr>
<tr>
<td>Distributions from Profit-Sharing, Retirement Plans, IRA's, etc.</td>
<td>1099-R</td>
<td>Income → IRA/Pension Distribution</td>
</tr>
<tr>
<td>Dividends</td>
<td>1099-DIV</td>
<td>Income → Interest and Dividends</td>
</tr>
<tr>
<td>Earned Income Credit</td>
<td>Client Information</td>
<td>E-File Page</td>
</tr>
<tr>
<td>Education Credits</td>
<td>1098-T, Financial Account, Client Information</td>
<td>Deductions → Credits Menu → Education Credits</td>
</tr>
<tr>
<td>Educator Expenses</td>
<td>Client Information</td>
<td>Deductions → Adjustments → Educator Expenses</td>
</tr>
<tr>
<td>Description</td>
<td>Form</td>
<td>TaxSlayer</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>-----------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Foreign Tax Credit</td>
<td>1099-DIV, 1099-B</td>
<td>Deductions → Credits Menu → Foreign Tax Credit</td>
</tr>
<tr>
<td>Gambling Expenses</td>
<td>Client Information</td>
<td>Deductions → Itemized Deductions → Miscellaneous Deductions</td>
</tr>
<tr>
<td>Gambling Income (Winnings)</td>
<td>W-2G</td>
<td>Income → Other Income → Gambling Winnings</td>
</tr>
<tr>
<td>Health Savings Accounts</td>
<td>Form 5498-SA, 1099-SA, W-2 box 12</td>
<td>Deductions → Adjustments → Health Savings Account</td>
</tr>
<tr>
<td>Interest received</td>
<td>1099-INT</td>
<td>Income → Interest and Dividends</td>
</tr>
<tr>
<td>IRA deductions</td>
<td>IRA Contribution statement</td>
<td>Deductions → Adjustments → IRA Deduction</td>
</tr>
<tr>
<td>Medical Expenses</td>
<td>Client Information</td>
<td>Deductions → Itemized Deductions → Medical and Dental Expenses</td>
</tr>
<tr>
<td>Mortgage Interest</td>
<td>1098</td>
<td>Deductions → Itemized Deductions → Mortgage Interest and Expenses</td>
</tr>
<tr>
<td>Proceeds from Broker-Sale of Stocks, Bonds, etc.</td>
<td>1099-B, 1099-S, 1099-A</td>
<td>Income → Capital Gains and Losses</td>
</tr>
<tr>
<td>Railroad Retirement Benefits</td>
<td>RRB-1099</td>
<td>Income → IRA/Pension Distribution → Social Security Benefits</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>Usually on the 1098 or property tax statement</td>
<td>Deductions → Itemized Deductions → Taxes You Paid or Mortgage Interest and Expenses page if reported on Form 1098</td>
</tr>
<tr>
<td>Repayment of the 2008 1st Time Home Buyer Credit</td>
<td>IRS Letter, Previous returns, Client Information</td>
<td>Other taxes → First-time Homebuyer Repayment</td>
</tr>
<tr>
<td>Royalties</td>
<td>1099-Misc, Schedule K-1</td>
<td>Income → Form 1099-Misc or Rents and Royalties</td>
</tr>
<tr>
<td>Self-Employment Income</td>
<td>1099-MISC (box 7)</td>
<td>Income → Form 1099-MISC (then select create Schedule C)</td>
</tr>
<tr>
<td>Social Security Benefits</td>
<td>SSA-1099</td>
<td>Income → IRA/Pension Distribution → Social Security Benefits</td>
</tr>
<tr>
<td>Unemployment Compensation</td>
<td>1099-G</td>
<td>Income → Unemployment Compensation</td>
</tr>
<tr>
<td>Wage &amp; Tax Statement</td>
<td>W-2</td>
<td>Income → Wages and Salaries</td>
</tr>
</tbody>
</table>
The 3-Step Process
All tax returns prepared at a Tax Help Colorado tax site must go through a three-step process:

1. **Intake**
2. **Tax Preparation**
3. **Quality Review**

You’ve learned about **Step 2: Tax Preparation by reading through Section V** of this guide. Now you will learn about Step 1: Intake, and Step 3: Quality Review.

**STEP 1: INTAKE**

A complete Intake Sheet (Form 13614-C) paired with a thorough interview is the foundation of an accurate income tax return.

When being greeted at the tax site, a taxpayer should be asked if they have:

- **Photo Identification**
  - Driver’s License, State Issued ID, and Passports are common and acceptable forms.

- **Social Security Cards or ITINs for every person being claimed on the tax return**
  - Tax Help Colorado sites will accept photo copies of these documents or official documents stating the full number on forms issued by the Social Security Administration office.
  - Taxpayers cannot have their return completed without these documents.
  - Social security numbers from memory, W-2s, prior year returns, or any other document are not accepted.
  - If you have any questions about acceptable forms, please check with your Site Coordinator.

- **All tax forms for the year in which the taxpayer is filing**
  - Income (W-2s, 1099s, any other income-related documents)
  - Deductions (mortgage interest, charitable contributions)
  - Childcare Expenses (total paid to daycare provider and the provider’s tax ID for the Child & Dependent Care Credit)
  - Health Insurance Coverage (Required for taxpayers who have Marketplace insurance. See Section V, Chapter 16.)

- **Bank Account Information** (routing and account number if they want direct deposit)

- **Prior Year Returns** (not required in most circumstances but can be helpful)
After determining that the taxpayer has all the above documents, they will be asked to complete the first three pages of the Intake Sheet and are given the option to sign the global carryforward consent form on the fourth page. Upon completion, the taxpayer will go through an interview process, called Intake, with a SCREENER. Some taxpayers may need assistance completing their intake sheet and the site must do its best to accommodate those requests.

Intake Objectives
There are three primary objectives of the intake process: 1) ensure the taxpayer has all the necessary documents to complete an accurate return; 2) discover and record any tax related information not represented on a tax form; 3) determine if the taxpayer’s return is within scope of the VITA site.

Intake Process
In order to complete these objectives, screeners must ask probing questions, use their reference materials (Pub 4012, Pub 17, Intake Procedures, etc.) and pay close attention to detail of the tax forms they are handed and the information provided by the taxpayer. Below is the general process to be filed at intake. For a more thorough list of procedures, ask your instructor or site coordinator for the tax site procedures.

2. Check that they have an acceptable social security or ITIN card for every individual on the return.
3. Review intake sheet with taxpayer
   a. Page 1 of intake sheet
      i. Check that all questions have been answered.
      ii. Identify filing status.
      iii. Complete shaded area in Part II and determine which household members should be a dependent and/or qualifying child for tax credits.
   b. Page 2 of intake sheet
      i. Change any unsure or incomplete answers to “yes” or “no” based on information given by the taxpayer.
      ii. Ask to see tax forms or additional information for every question marked yes.
         1. Record number of tax forms per type (for example mark “2” next to 1099-R to represent there are two 1099-R forms for this household).
         2. Change answer to “no” if question was incorrectly marked “yes.”
      iii. Add up income to make sure it is not over the $56,000 income threshold to qualify for this service.
      iv. Use Pub 4012 to make sure every source of income, expenses or life event are within scope of the program.
   c. Page 3 of intake sheet
      i. Check that all questions have been answered
   d. Page 4 of intake sheet
      i. Ask taxpayer if they have any questions about the consent form.
      ii. It is not necessary for the taxpayer to sign the consent form to have their taxes prepared at a VITA site but it’s important they understand the form itself.
4. Once you’ve confirmed the taxpayer has all necessary documents for their return to be completed at the tax site and that they are within scope of the site, explain the rest of the site’s process:
   a. Return is prepared.
   b. Return is reviewed.
   c. Taxpayer and spouse must sign the return in order for it to be electronically filed and they will be given copies of their return at the end.
5. Ask if they have any questions.
6. Thank them for their time and ask them to wait for their named to be called for tax prep.
STEP 3: QUALITY REVIEW

All tax returns prepared at VITA sites must be quality reviewed. Page K-7 in Publication 4012 has a list of items that must be verified when “quality reviewing” a tax return. Reviewing these items prevents common errors from occurring. *Quality Review is recommended for volunteers with at least one year of prior tax experience.*

**How is Quality Review conducted?**

First, make sure you fully understand the taxpayer’s tax situation. If the intake sheet is not complete, the quality reviewer should complete it with the assistance of the taxpayer. This will ensure that all needed information has been attained. Review the completed tax return and all supporting documents with the taxpayer to ensure that the taxpayer correctly marked all items on the intake sheet and correctly transferred these items to the return. If the intake sheet and all supporting documents do not match what is reported on the return, either make the appropriate changes or follow up with additional questions to the return preparer.

Returns must be checked for accuracy, including the review of all social security numbers, and verification of account numbers, review of math computations, verification of W-2 information and other tax documents. Verify that the tax return reflects the correct tax law application to the information and source documents the taxpayer provided. Confirm each item on page K-7 in Publication 4012.

The quality reviewer needs to be able to explain the different items on the return to the taxpayer. The preparers and quality reviewers should be able to help the taxpayer understand most elements of his or her tax return like the types of income reported, adjustments made, deductions taken, credits, additional taxes added and why the taxpayer owes or is receiving a refund.

The quality reviewer will also be responsible for printing a copy of the return for the taxpayer and obtaining the taxpayer’s signature to electronically file the return. Learn more about this process in the site procedures for quality reviewers.
Certification

IX.

What's Covered
• Overview of Certification Exams
• Basic Certification Exam
• Advanced Certification Exam
• Health Savings Accounts Exam
• Volunteer Standards of Conduct Exam
• Intake/Interview & Quality Review Exam

Resources
Publication 6744 (Volunteer Assistor’s Test/Retest)
Publication 4012 (Volunteer Resource Guide)
Publication 5101 (Intake/Interview & Quality Review Training)
Publication 4961 (Volunteer Standards of Conduct – Ethics Training)

Now that you have read through this guide, you will next need to complete one or more of the IRS Certification Exams. To determine which exam(s) you must take for your volunteer role, refer to Section II Volunteer Training Tracks in this guide. Please note that all volunteers must complete their required exam(s) before volunteering at a Tax Help Colorado site.

Taking the Exams
Each exam requires a score of 80% or above to pass. You have two opportunities to pass each exam, so if you fail on your first try, you are allowed one retest. The retests use the same scenarios with slightly different questions. The exams are open book and you are encouraged to use all of the resources provided to you. There is no time limit for the exam, so you can login and out at your convenience as the program will save your place in the exam.

You will take the exam online using the Link & Learn Taxes training at www.linklearncertification.com or at www.irs.gov, using keyword search: Link and Learn. You can access TaxSlayer from anywhere you have internet access and can prepare the tax returns necessary for the certification exam in the practice lab.

It is recommended that you first write down your answers to the exam in Publication 6744 before taking the exam on Link & Learn. You’ll receive your results immediately after taking the test and will be able to review any questions incorrectly answered.

You must print, sign and turn in the volunteer agreement, Form 13615, also called the Volunteer Standards of Conduct Agreement. The link to the form can be found in the upper right-hand corner of the VITA/TCE Certification Tests screen. Tax-certified volunteers will be asked to bring their Form 13615 to the third in-person training. Returning volunteers should bring this form with them on their first volunteer date at a tax site. Non-certified volunteers will be able to print their Forms 13615 at the training. Volunteers will also be asked to upload a pdf of their 13615 to their account on the volunteer tracking site, Track It Forward.
The Basic Certification exam consists of 25 questions. You will need to answer multiple choice or fill in the blank questions about 7 different tax scenarios, 2 of which require you to create returns using the TaxSlayer Practice Lab.

The Advanced Certification exam consists of 35 questions. You will need to answer multiple choice or fill in the blank questions about 8 different tax scenarios, 3 of which require you to create returns using the TaxSlayer Practice Lab.

The Health Savings Accounts exam consists of 15 questions. You will need to answer multiple choice or fill in the blank questions about 5 different tax scenarios, 1 which require you to create returns using the TaxSlayer Practice Lab.

The Volunteer Standards of Conduct exam consists of 10 questions. This test is required for all who wish to volunteer at Tax Help Colorado sites. All new volunteers are required to read through the Volunteer Standards of Conduct Training, Publication 4961. This publication is available online. Key points of this training are covered below.

All participants in the VITA program must adhere to these Volunteer Standards of Conduct:

1. **Follow the ten Quality Site Requirements (QSR).** QSR ensures VITA sites are using consistent site operating procedures that will ultimately assist with the accuracy of volunteer prepared returns.
   - **QSR #1: Certification**—All new volunteers must complete the Volunteer Standards of Conduct (VSC) training and all volunteers must pass the VSC test. Volunteers must pass the appropriate certification level to complete certain tasks. For example, only tax-certified volunteers may answer tax-related questions; non-certified volunteers cannot.
   - **QSR #2: Intake/Interview & Quality Review Process**—All VITA sites must use Form 13614-C (Intake sheet). All tax returns should include a thorough interview and quality review with the taxpayer.
   - **QSR #3: Confirming Photo Identification and Taxpayer Identification Numbers (TIN)**—Photo identification is required for the primary and secondary taxpayer for all returns. Additionally, Social Security Numbers or Individual Taxpayer Identification Numbers (ITINs) must be verified for everyone listed on the tax return.
   - **QSR #4: Reference Materials**—All VITA sites must have at least one copy (paper or electronic) of the
following materials: Publication 4012, Publication 17, Publication 4299, and Volunteer Tax Alerts and QSR Alerts.

- **QSR #5: Volunteer Agreement**—All volunteers must complete the VSC certification test and agree to comply with the VSC by signing and dating Form 13615 prior to working at a tax site.
- **QSR #6: Timely Filing**—All sites must have a process in place to ensure every return is electronically filed or delivered to the taxpayer in a timely manner.
- **QSR #7: Civil Rights**—Title VI of the Civil Rights Act of 1964 information must be displayed or provided to taxpayers at the first point of contact between the IRS tax law-certified volunteer and the taxpayer even if a return is not completed.
- **QSR #8: Site Identification Number**—All tax returns prepared by VITA must contain the correct Site Identification Number (SIDN).
- **QSR #9: Electronic Filing Identification Number**—All returns prepared by VITA must contain the correct Electronic Filing Identification Number (EFIN).
- **QSR #10: Security**—All taxpayer information (including identification numbers, user names, and passwords) must be kept secure using the guidelines in Publication 4299. Volunteers must not share any of this information.

2. **Do not accept payment, solicit donations, or accept refund payments for federal or state tax return preparation from customers.** Volunteers cannot accept compensation from clients, which includes tips. If clients insist, they can give non-cash items like cookies to the site. Clients may donate to the site’s sponsoring organization, but not in the tax preparation area. Taxpayer’s refunds cannot be deposited into a volunteer’s bank account.

3. **Do not solicit business from taxpayers you assist or use the knowledge gained about them (their information) for any direct or indirect personal benefit for yourself or any other specific individual.**

   Example 1: You are a volunteer preparer and professional accountant. You cannot solicit business from the taxpayer at a VITA site. Example 2: You are a volunteer. The taxpayer you are serving is without health insurance and your spouse sells insurance. You cannot offer to sell the taxpayer health insurance through your spouse’s business.

4. **Do not knowingly prepare false returns.** Even though well-intended, bending the law to help a taxpayer is not acceptable. It can harm the taxpayer and the VITA program, and can lead to the taxpayer seeking damages from the VITA program or the volunteer. Example: A volunteer preparer told the taxpayer that cash income does not need to be reported. The return was completed without the cash income. The quality reviewer simple missed this omission and the return was printed, signed and e-filed. The volunteer preparer has violated this standard. However, since the quality reviewer did not knowingly allow this return to be e-filed incorrectly, the quality reviewer did not violate this standard. Remember not to confuse an unethical action with a lack of knowledge or a simple mistake.

5. **Do not engage in criminal, infamous, dishonest, notoriously disgraceful conduct, or any other conduct deemed to have a negative effect on the VITA program.** Volunteers may be prohibited from participating in VITA if they engage (past or present) in any of these forms of conduct. Volunteers who participate in any of these forms of conduct will be barred from volunteering for VITA and may be added to a registry of barred volunteers. If you have information indicating another volunteer has engaged in any of these conduct, or has violated any of the Volunteer Standards of Conduct, you should report this to your tax site coordinator, and email IRS at WI.VolTax@irs.gov.

6. **Treat all taxpayers in a professional, courteous, and respectful manner.**

   **Intake/Interview & Quality Review Exam**

   The Intake/Interview and Quality Review exam consists of 10 multiple choice questions. All tax-certified volunteers are required to pass this exam before volunteering at a tax site. This exam is not required for nontax certified volunteers. The contents of this test are partially covered in Section VIII Tax Site Operations. For a more detailed review of this content, refer to the online Publication 5101 (Intake/Interview and Quality Review Training).
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Thank you to all of our 2018-19 volunteers!